



ELAN Microelectronics Corporation

**2019
ANNUAL REPORT**

URL: <http://mops.tse.com.tw>

Published on May 6, 2020

1. Company spokesperson:

Name: LIU, TAI-MING
Job title: Director
Tel: (03)5639977 ext. 6101
E-mail: addldm@emc.com.tw

Acting spokesperson:

Name: PAI, YU-CHIEH
Job title: Deputy Director
Tel: (03)5639977 ext. 3003
E-mail: prepyc@emc.com.tw

2. Company location:

HQ: No. 12, Innovation 1st Road, Hsinchu Science-Based Industrial Park,
Hsinchu County
Tel: (03)5639977

Zhonghe Plant: 5/F, No. 150, Jianyi Road, Zhonghe District, New Taipei City
Tel: (02)82263008

3. Name, address and telephone number of the share registry:

Name: Masterlink Securities Corp.
Address: B1/F, No. 35, Lane 11, Guangfu North Road, Songshan District,
Taipei City 105
URL: www.masterlink.com.tw
Tel: (02)2768-6668

4. Name, name of the accounting firm, address and telephone number of the CPA for the last fiscal year:

Name: Accountant CHOU, PAO-LIAN and TSENG, MEI-YU
Accountant firm Name: KPMG
Address: 68/F, Taipei 101, No. 7, Section 5, Xinyi Road, Taipei City 11049
URL: http://www.kpmg.com.tw
Tel: (02)8101-6666

5. Name of the securities trading place aboard and contacting information: N/A

6. Company URL: http://www.emc.com.tw/

ELAN Microelectronics Corporation



Chairman: YEH, I-HAU



TABLE OF CONTENTS

I.	Letter to Shareholders	1
II.	Company Profile	6
	1. Date of Incorporation	6
	2. Company History	6
III.	Corporate Governance Report	12
	1. Organization	12
	2. Directors, Supervisors and Management Team	14
	3. Implementation of Corporate Governance	29
	4. Audit Fee Information	53
	5. Information Regarding the Change of Accountant	54
	6. The Company's Chairman, president, chief financial officer or chief accounting officer who has worked for the CPA's firm or its affiliates during the last fiscal year	55
	7. Any transfer of shareholdings and changes in equity pledge from the directors, managers and shareholder(s) holding more than 10% of the shares during the last fiscal year and until the publishing date of the annual report	56
	8. Information Regarding the Relationship Between the Related Parties Identified in No.6 of the the and the Financial Accounting Standards and the Top 10 Shareholders	57
	9. The number of shares held by the company, the company's directors, supervisors, managers, and businesses directly or indirectly controlled by the Company in the same joint venture, and the combined shareholding percentage ..	58
IV.	Capital Overview	59
	1. Capital and Shares	59
	2. Corporate Bond	65
	3. Preference Share	65
	4. Overseas Depositary Receipt	65
	5. Employee Stock Option Certificates	65
	6. Status of New Shares Issuance in Connection with Mergers and Acquisitions	65
	7. Financing Plans and Implementation	65
V.	Operating Highlights	66
	1. Operating activities	66
	2. Market and Sales Overview	76
	3. Human Resources Information	87
	4. Environmental Protection Expenditures	88
	5. Labor Relations	89
	6. Important Contracts	91

VI.	Financial Information	93
1.	Last Five Fiscal Years' Financial Summary	93
2.	Last Five Fiscal Years' Financial Analysis.....	97
3.	Audit Committee's Review Report.....	101
4.	Financial Statements of the Last Fiscal Years	102
5.	Last Fiscal Year's Parent-Subsidiary Consolidated Financial Statements and Independent Auditors' Report.....	170
6.	Financial Difficulties of the Company and its Affiliates During the Last Fiscal Year and Until the Publishing date of the Annual Report.....	245
VII.	Review of Financial Status, Operating Results, and Risk Management	246
1.	Financial Status	246
2.	Operating Results	247
3.	Cash Flow.....	249
4.	Impact of Major Capital Expenditures on the Financial Operations during the Last Fiscal Year.....	250
5.	The Last Fiscal Year Joint Venture Policies, Main Reasons for the Profit or Loss and the Improvement Plan Thereof and the Investment Plan for the Coming Year	251
6.	Risk Analysis and Assessment.....	252
7.	Other Important Matters.....	255
VIII.	Special Disclosure	256
1.	Summary of Affiliated Companies	256
2.	Private Placement Securities During the Last Fiscal Year and Until the Publishing date of the Annual Report	262
3.	The Shares in the Company Held or Disposed of by Subsidiaries During the Last Fiscal Year and Until the Publishing date of the Annual Report.....	262
4.	Other Necessary Supplementary Explanations	262
IX.	Any matter that has material effect on the shareholders' equity or the price of securities as set out in sub-paragraph 2, paragraph 2, Article 36 of the Company Act During the Last Fiscal Year and Until the Publishing date of the Annual Report.....	263
	Statement on Internal Control	264

I. LETTER TO SHAREHOLDERS

1. Operating results of the year 2019

In 2019, the Company actively introduces high value-added IC products to improve product performance and effectively drive up the average selling price of module products and increase in gross profit margin, while global penetration rate of first-tier notebook brand customers increased significantly as a result of effectively provision of overall solutions and emphasis on customer services. In addition, revenue and profit have set a new historical record since the establishment of the Company due to multiple favorable factors such as increasing number of shipments of market-leading high-end IC products with touch pen function.

Notwithstanding the touchscreen industry has entered into maturity, the Company's focus of operation is still on strengthening the functions of terminal application products through new technologies to promote its market share and increasing the added value of ICs and thus still set growth records in terms of revenue, gross profit margin and profit in this mature industry and new applications market.

In 2019, revenue and profit of touchscreen industry and related applications both grew significantly. The main reason is the close cooperative relationship with global major specifications and platform developers such as Microsoft, Wacom, Google, Huawei and other US, China and Japan megafactories, the control of the latest information and technical cooperation, the fast supply of products to first-tier international megafactories, and the establishment of customer's confidence in the Company, which allow the competitive edge in touchscreen products developed by the Company to be realized and resulted in the significant rise in penetration rate among individual customers; it has also led the Company's touchscreen products (touch screen ICs or touch pads) to rise significantly in global market share. Each of the two product lines has exceeded 50% of global market share, and the touch screen IC and Touch Pad products combined has constructed the Company's main source of revenue and profit.

In the meanwhile, in addition to cooperation with specification and platform developers, the Company's high value-added IC products have also been successfully introduced into the products of the major specification developers, such as Microsoft's 2-in-1 notebook "Surface Go", Google notebooks, etc. Since the main platform or specification developers have a wide range of marketing channels around the world, this will boost the increase in volume and price of the Company's products and drive operational growth.

Actively invest in the development and application of fingerprint recognition products. In 2019, fingerprint recognition was mainly used to strengthen the application in notebook computers. However, due to the fierce price-competition in the smartphone market, it is obviously impossible to obtain the existing profits. Therefore, the Company shifted to minimize shipment of these types of products to focus on profitable notebook market, and thus gained obvious results. Overall speaking, fingerprint revenue has annual growth of more than 30%. At the same time, in order to seek market segmentation and improve profitability, the Company has strengthened the capacitive fingerprint sensor payment and encryption functions to increase added value, which significantly benefited revenue and profit growth in 2019. Due to the relatively low penetration rate of fingerprint recognition in the notebook market, major notebook brands' willingness to adopt has increased significantly, the increased penetration rate is thus expected to further boost the Company's profit in 2020.

Regardless of the fierce competition in the external environment at home and abroad, the

Company still managed to reach a combined revenue of NT\$9,488,000,000 (an 9.7% increase in the overall combined revenue from the previous year) and set a new record since the company was established based on its advantages in IC design technology and engineering, which effectively reduced costs and optimized the product portfolio. Due to continuous product portfolio optimization and efforts to reduce costs, the combined gross profit margin was significantly better than that of last year maintaining a high level of 46.6%, the combined operating net profit margin reached 21.9%, and the combined pre-tax surplus reached NT\$2,810,000,000.

Due to the high saturation rate in the developing-country market and the slow growth of the developing countries, the market demand has slowed down significantly, and the number of smartphone shipments in 2019 will be reduced by single digits compared to that of in 2018. According to IDC research and survey, global smartphone shipments reached 1,371,000,000 units in 2019 (an annual decrease of 2.3%); while notebook computer shipment report shows an annual increase of 1.6% due to the increase in the demand for commercial notebooks in 2019 and is estimated that notebook computer shipment will be 165,000,000 units in 2019.

In product research and development, the Company continued to deepen the research and development of various products with large market demand and respond to the development trend of the terminal market. In 2019, R&D expenditures accounted for 17% of revenue; and gradually completed the development of low power consumption touch screen solutions, MPP2.0 active pen solutions, optical biometric ICs, high waterproof low power consumption touch pad solutions, touch-display integrated single-chip solution for mobile phone supported active pens, ear detection / touch ICs for True Wireless Stereo (TWS), independent low power consumption smart smoke sensor control IC, and lighting touch pad solution.

In 2019, the Company's was frequently awarded. The Company's panoramic 360-degree fisheye images AI Smart Transportation won "Golden Award" of the Best Choice Award in Taipei International Information Technology Show and silver medal in the Talent Quality-management System (TTQS) Award, while the "battery-free contactless biometric smart card Solution" won Hsinchu Science Park's 2019 "Smart Science Park Innovation Application Award".

(1) 2019 operating conditions (consolidated statements):

unit: NT\$'000

Year	2019
Net Revenue	9,487,977
Operating Costs	5,074,045
Gross Income	4,416,688
Operating Expenses	2,335,262
Net Operating Profit	2,081,426
Non-Operating Income and Expenses	728,234
Net Profit Before Tax	2,809,660

(2) Revenues, Expenses, and Profitability Analysis (consolidated statements):

unit: NT\$'000

Items		2019	2018
Revenues & expenses	Net Income	9,487,977	8,651,332
	Gross Income	4,416,688	3,944,177
	Net Income After Taxes	2,464,742	1,531,702
	Net Income After Taxes attributable to owner(s) of the parent company	2,496,744	1,559,580

	Net Income After Taxes attributable to non-controlling interest		(32,002)	(27,878)
Profitability analysis	Return on Asset (%)		23.49	15.40
	Return on Equity (%)		34.75	22.03
	Proportion to paid-up capital (%)	Operating profit	68.49	56.94
		Net Profit Before Tax	92.46	61.54
	Net Profit Margin (%)		25.98	17.70
	Basic Earnings Per Share (NT\$)		8.57	4.16

2. 2020 Business Plan Summary

The Covid-19 broke out in mainland China in early spring of 2020 and quickly spread throughout China. At the same time, the pandemic also affected many countries around the world, which caused global impact on tourism industries; the flow of people has greatly reduced and so is consumption. What is more serious is that mainland China is a major production center for various commodities in the world; the pandemic significantly reduced the number of people going back to work in factories throughout mainland China, which resulted in production shortage; furthermore, the inflow and outflow of control personnel throughout mainland China also takes toll on smooth traffic flow. As a result, the supply chain is very likely to break, causing a substantial impact on the overall economy. It is generally estimated that it would be smoothed out by the second quarter of 2020, but there are still variables.

On the other hand, the China-US trade war has initially eased, and whether there will be any subsequent turmoil remains to be observed; the pandemic slowed down mainland China's economy, and whether it will cause a large shift of supply chains to Southeast Asian countries remains to be uncertain; and subsequent impacts of Brexit, etc., all take toll on the subsequent development of the overall global economy. While Covid-19 pandemic continues to spread, the International Monetary Fund lowered its growth forecast for China's economy this year. There is no doubt that Covid-19 pandemic will impact on mainland China and the world's economy. Thus, the International Monetary Fund believes that China's economic growth rate this year will be 5.6%, which is a 0.4% downward adjustment from last month's estimation, and the global economic growth rate was also downward adjusted by 0.1%.

The Company's touch pad modules products are outsourced; the main production base of which is in mainland China. Due to the impact from the pandemic, it cannot be delivered to customers smoothly; therefore, the short-term response measure adopted is to manufacture part of it in Taiwan to fulfill the commitment to customers in a fast and effective way and deliver the goods smoothly. As for the complex and changing economy in general, the Company continues to improve its product development capacity and mindfully grasps the true demand of customers in respond to the global changes.

The Company basically remains prudent toward 2020, while heading toward the goal of further growth. The main growth momentum comes from the provision of high value-added biometric products for notebooks. Since the average selling price is higher than anticipated, it is expected to further drive revenue and profitability. IC solution combining touch control and capacitive stylus pen functions is one of the Company's most competitive products, of which the shipment in 2019 has exceeded 10 million sets. In order to respond to the increasing opportunity to use stylus pen due to the ever-enlarging smartphone display and the inevitable foldable smartphones, a growth opportunity of touch control IC combined with capacitive stylus pen function was clearly felt. In 2020, the Company will continue to strike for this huge potential business opportunity.

The touch screen ICs for notebooks still holds a high global market share, and the Company's sales volume is still possible to be higher than that of last year thanks to the promotion of dual-screen notebooks by the platform industry and orders for new models this year. The Touch Pad is another main product line of the Company, which is mainly used in notebooks and currently holds a global market share of more than 50%; the overall shipment volume this year will be better than that of last year under the prospect of high-end Lighting Pad and Haptic Pad and the increase in customer penetration rate, which ensures the goal of becoming No.1 in global market share.

The Company is a professional IC design company. The smooth cooperation of overall supply

chain is crucial, because the chips are outsourced; therefore, continuous maintenance of upstream and downstream partnerships with domestic and foreign IC foundries and packaging & testing companies is adopted to gain cost competitiveness, while cooperating with supply chain manufacturers such as touchscreen factories, LCD display factories, smart phone and notebook assembly factories to ensure smooth product shipments and maintain long-term and close partnerships with customers.

In addition, the Company's future development strategy will still be affected by the external competitive environment, regulations and overall business environment, but the Company will continue to develop its core technologies and integrate imaging, sound, entertainment and other components to create cost-effective chips with powerful functions and to offer customers with world-class competitive solutions via system integration concept, while implementing business strategies, establishing patent networks, developing blueprints, continuous investing in the development of new products, improving performance and quality of chips, and exploring own core competitive edge, which are the cornerstones of outstanding revenue and profit.

Chairman: YEH, I-HAU

President: YEH, I-HAU

Chief Accounting Officer: CHEN, YI-LIN

II. COMPANY PROFILE

1. Date of Incorporation: May 5, 1994
2. Company History
 1. 1994
 - May Formally established with nominal and paid-up capital amounting to NT\$1 billion even.
 - June Hsinchu Science Park Bureau issued the Business Registration Certificate and the Company officially commence its operations.
 2. 1995
 - April The neural network IC series and development system have received grants from Hsinchu Science Park's "Key Components and Products R & D Plan".
 3. 1996
 - January The high-speed computer screen controller received grants from Hsinchu Science Park's "Innovation, Technology, Research and Development Plan".
 - May The MPEG-2 video decoder received grants from Hsinchu Science Park's "Innovation, Technology, Research and Development Plan".
 - May The MPEG-2 audio decoder received grants from Hsinchu Science Park's "Innovation, Technology, Research and Development Plan".
 - December Won Hsinchu Science Park's "1996 Research and Development Investment Award".
 4. 1997
 - April Won Corporate Silver Medal in the 6th National Invention Prize.
 - April Established ELAN Microelectronics Hong Kong branch office to expand markets and marketing bases in Hong Kong and mainland China.
 5. 1998
 - June Won the "1998 Excellent Intellectual Property Management System Award" organized by the Industrial Development Bureau, MOEA.
 6. 1999
 - December Won Hsinchu Science Park's "1999 Research and Development Investment Award".
 7. 2000
 - April Authorized by the Securities and Futures Commission, Ministry of Finance to list and trade its stocks over the counter (stock code: 5433).
 8. 2001
 - February The ELAN Technology Building located on No. 12, Chuangxin 1st Road has completed and officially moved in.
 - March Received Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award".
 - September Authorized by the Securities and Futures Commission, Ministry of Finance to list and trade its stocks in the exchange market (stock code:

- 2458).
- October Won gold medal in the 10th National Invention Prize.
- November Passed ISO9001 quality certification.
- December Won Hsinchu Science Park's "2001 Innovative Product Awards".
9. 2002
- March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 2nd consecutive year.
- October Recognized by Forbes as one of the "200 Best Small Companies".
- October Entered the eastern China market and established Elan Shanghai, Ltd.
10. 2003
- March Entered the European market and established ELAN's European branch office in Switzerland.
- March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 3rd consecutive year.
- June Entered southern China market and established Elan Shenzhen Co., Ltd.
- October Authorized by the Department of Industrial Technology, MOEA to establish a forward-looking technology R & D center.
- December Received a subsidy from the consultation program for the development of leading new products ("Leading Product") of the Industrial Development Bureau, MOEA.
- December Won Hsinchu Science Park's First "R & D Achievement Award".
11. 2004
- March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 4th consecutive year.
- May Received grants from Hsinchu Science Park's innovative technology R & D program "TFT LCD single-chip controller".
- October Received grants from Hsinchu Science Park's innovative technology R & D program "2.45GHz RF Transceiver IC for Cordless Phones".
- October Received Outstanding Award in the 12th "MOEA Industrial Science and Technology Development Award" from Department of Industrial Technology, MOEA.
- October Recognized by Forbes as one of the "100 Best Small Asia-Pacific Companies" in 2003".
- December Won Hsinchu Science Park's Second "R & D Achievement Award".
12. 2005
- March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 5th consecutive year.
- December Won Hsinchu Science Park's Third "R & D Achievement Award".
13. 2006
- March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 6th consecutive year.
- April Received a subsidy from the consultation program for the development of leading new products ("Leading Product") of the Industrial Development Bureau, MOEA.
- October Won Hsinchu Science Park's "2006 Innovative Product Award".

14. 2007
March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 7th consecutive year.
September Won Contribution Award in the "2007 National Invention and Creation Award" from Ministry of Economic Affairs.
15. 2008
October Won Hsinchu Science Park's "2008 Innovative Product Award".
October ELAN Microelectronics was officially merged with Elantech Devices.
16. 2009
June Won "Best Choice Award" in Taipei International Information Technology Show (the "COMPUTEX Taipei") for the awarded items hereinunder:
The "Transparent Touch pad" won the Annual Award;

- The “Transparent Touch pad” won the Excellence Award in the peripheral and accessories category;
The “Smart Remote Control” won the Excellent Digital Entertainment Product Award.
- June Received grants for the “Portable Soft-Film Multi-Touch Surface Capacitive Module Program” from the “Industrial Technology Development Program” of Ministry of Economic Affairs.
- September Won Outstanding Innovation Award in the 17th “Industrial Science and Technology Development Award” from Ministry of Economic Affairs.
- October The “Smart Remote Control” won the “2009 IT Month’s Outstanding Information Application and Products Award”.
- November Won the 10th “Industrial Excellence Award” from Ministry of Economic Affairs.
- December The “Smart Remote Control” won Hsinchu Science Park’s “2009 Innovative Product Awards”;
Won 2009 Hsinchu Science Park’s “R & D Achievement Award”;
Won Hsinchu Science Park’s “2009 Promotion of International Exchange and Cooperation Award for Excellence”;
Won Outstanding Award in Hsinchu Science Park’s “2009 Environmental Protection Competition”.
17. 2010
- January The “Smart Remote Control” won “Innovative Design and Engineering Award” in USA’s 2010 Consumer Electronics Show.
- June The “Capacitive Multi-Finger Touch Screen and Stylus” won the “13th Outstanding Photonics Product Award”.
- December Received grants for the “Optical System Integration Chip Plan With High Recognition Rate and Wide Dynamic Range” from Hsinchu Science Park’s “Research on Framework of University-Industry Collaboration for Enhancing Sustainable Growth for NSC Science Park”;
Won Hsinchu Science Park’s “2010 R & D Achievement Award”;
The “Smart-3D Remote Control” won Hsinchu Science Park’s “2010 Innovative Product Awards”.
18. 2011
- August Received grants for the “Capacitive Touch Screen With Force Sensing Program” from the “Leading Program” of Ministry of Economic Affairs.
- December The “Capacitive 10-Finger Touch Screen and Stylus” won Hsinchu Science Park’s “2011 Innovative Product Awards”.
19. 2012
- June The “Smart-Touchscreen™ IC” won “Golden Award” and “Best Choice of the Year” in the IC & components product category of the Best Choice Award of COMPUTEX Taipei.
20. 2013
- September Received grants for “Portable Product with 3D Depth Sensor for Hand Gesture Recognition” program from the “Leading Program” of Ministry of Economic Affairs.
- October Won the “Corporate Standardization Award” in the “14th National

- Standardization Award” of Ministry of Economic Affairs.
- November The “Windows 8 Single-Chip Smart Touch Screen Solution” won 2013 IT Month’s “Gold Award” and “Top 100 Innovative Product Award”.
- December Won Hsinchu Science Park’s “2013 R & D Achievement Award”;
The “Windows 8 Single-Chip Smart Touch Screen Solutions” won Hsinchu Science Park’s “2013 Innovative Product Awards”;
Won the “2nd Excellent Backbone Enterprises Award” from the Industrial Development Bureau, MOEA.
21. 2014
- July Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award” for the 10th time.
- December Won Hsinchu Science Park’s “2014 R & D Achievement Award”.
22. 2015
- June Obtained SGS certification for the Corporate Social Responsibility Report; passed international certifications of AA1000 AS Type 2 Moderate-Level Assurance and GRI G4.
- July Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award”.
- December Won Hsinchu Science Park’s “2015 R & D Achievement Award”;
The “Chromebook Smart Touch pad and Touch Screen Solution” won Hsinchu Science Park’s “2015 Innovative Product Awards”;
Won the “Vitality Award” in the “Healthy Workplace Health Promotion” from the Health Promotion Administration, Ministry of Health and Welfare.
23. 2016
- July Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award”.
- December Won Hsinchu Science Park’s “2016 R & D Achievement Award”;
The “Smart-ID Solution” won Hsinchu Science Park’s “2016 Innovative Product Awards”.
24. 2017
- July Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping and Contribution Award”.
- November The “Biometric Smart Card” won “Top 100 Innovative Product Award” in the consumer electronic product category of 2017 IT Month.
- December The “Pen-Emulated Finger-Pen-Concurrent Touch Screen Solutions” won Hsinchu Science Park’s “2017 Innovative Product Awards”.
25. 2018
- May Won Taiwan Industrial Technology Association’s “Taiwan Golden Root Award - Industrial Technology Special Contribution Award”.
- July Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping and Contribution Award”.
- October Won Hsinchu Science Park’s “2018 R & D Achievement Award”.
- October Won Hsinchu Science Park’s “2018 Innovative Product Awards”.
- December Won the “Excellent Health workplace” prize and “Gender-Friendly Health Award” issued by the Health Promotion Administration of the Ministry of Health and Welfare.

26. 2019
- | | |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| May | ELAN Microelectronics obtained the certification of ISO 45001 : 2018 Occupational Health and Safety Management Systems. |
| June | Won “Best Choice Award” in Taipei International Information Technology Show (the “COMPUTEX Taipei”) for the “panoramic 360-degree fisheye AI smart traffic detection technology”. |
| September | Won silver medal the Talent Quality-management System (TTQS) Award |
| October | ELAN Microelectronics won SGS’s 2019 “ISO Plus Award” |
| November | ELAN Microelectronics won the “Innovation Workplace Award” in the 2019 Creative Healthy Workplace Award issued by the Health Promotion Administration of the Ministry of Health and Welfare |
| December | The “battery-free contactless biometric smart card solution” won 2019 Hsinchu Science Park’s “Smart Science Park Innovation Application Award”. |
| | ELAN Microelectronics won, for the 15 th time, Hsinchu Science Park Bureau’s 2019 “Distinguished Green Landscaping and Contribution Award”. |

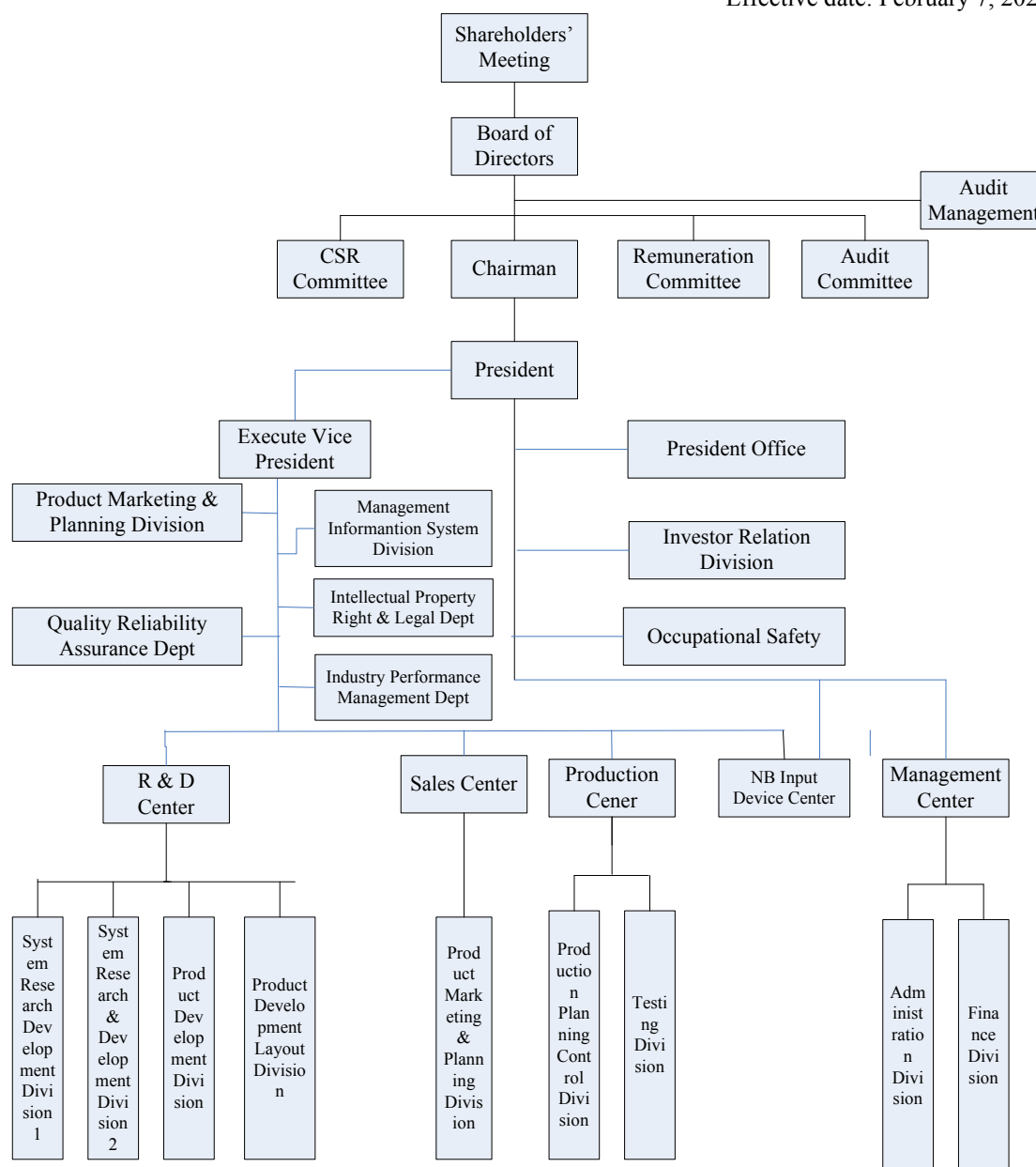
III. CORPORATE GOVERNANCE REPORT

1. Organization

(1) Organizational structure

Organizational Chart of ELAN Microelectronics Corporation

Effective date: February 7, 2020



(2) Operations of major departments

Department	In charge of
President's Office	Executing and coordinating the Company's overall business; planning and decision-making for the Operating objectives, and organize and control subordinates to achieve the task.
Auditor Committee	Investigate and evaluate the soundness, rationality and effectiveness of the internal control system and various management systems of the Company.
Management Information System Division	Responsible for MIS system's software assessment, system planning, program writing and maintenance.
Product Marketing & Planning Division	Responsible for developing and expanding new markets, global business promotion for major branding customers, and strategic cooperation with branding customers
Intellectual Property Rights & Legal Department	Responsible for patent applications, contract formulation and review and processing of legal proceedings related matters.
Quality Reliability Assurance Department	Quality inspection on incoming / outgoing goods, analyze and process customer complaints, product reliability analysis.
Safety & Health Office	Managing labor safety, fire-fighting and health related operations.
Investor Relation Division	Responsible for the Company's news release and the establishment and maintenance of relationship with domestic and foreign corporate bodies, media and investors.
Production Planning Control Division	Responsible for the management of raw materials, the planning and management of production schedules, procurement, import and export, customs bonds, etc.
Testing Division	Responsible for coordinating new product development, and the development of product property analysis and testing program.
Administration Division	Including Manpower Performance Management Department and Public Resources Department, which are responsible for the recruitment and management of human resources and the maintenance and operation for plant(s).
Finance Division	Comprehensive management of financial resources, and the establishment and maintenance of financial accounting, management accounting and tax filing.
Product Marketing & Planning Division	Responsible for the development of domestic and foreign markets, planning and implementation of marketing plans, sales of products, customer services, agent management, etc.
Industry Performance Management Department	Responsible for the management of new product projects, improvement of R & D processes and document management processes, management of R & D documents, proofreading of technical documents, application for various prizes and grants, promotion of corporate social responsibility and promotion of knowledge management of the Company.
System Research Development Division 1	Responsible for the planning, system integration, formulation of system specification, verification and system design for the IoT product market, and the development, design and mass production planning for the touch control products solutions.
System Research Development Division 2	Responsible for the system development, customer service, customer analysis and product promotion of product applications related to MCU, brushless DC motors, computer peripheral products, fingerprint recognition and touch pads.
Product Development Division	Responsible for the development, design and integration of digital circuits and sensing technology for the Company's products.
Product Development Layout Division	Responsible for strategically planning and designing the product development.
NB Input Device Center	1. Research and develop pointing sticks and driver program for notebook PCs; 2. Produce and manufacture notebook PCs pointing sticks; 3. Promote notebook PCs pointing sticks; 4. Comprehensive management of personnel management, plant operations and management accounting related issues of the NB Input Device Center.

2. Directors, Supervisors and Management Team:
(1) Directors and supervisors
1.1. Shares held by the directors and supervisors

March 29, 2020

Chairman		Job title	
Taiwan	Taiwan	Nationality or country of incorporation	Name
YEH, I-HAU	Yulong Investment Co., Ltd.	Gender	
male		Date of appointment	
June 11, 2018	June 11, 2018	Term	
3 years	3 years	Initial appointment date	
May 5, 1994	June 26, 2002		
5,621,565	9,888,656	Number of shares	Shares held at time of appointment
1.19%	2.24%	Shareholding ratio	
5,184,895	7,083,059	Number of shares	Number of shares currently held
1.70%	2.23%	Shareholding ratio	
N/A	–	Number of shares	Shares currently held by spouse and/or children under 20 years of age
N/A	–	Shareholding ratio	
N/A	–	Number of shares	Shares held in the name of others
N/A	–	Shareholding ratio	
Institute of Communications Engineering; Engineer of the Industrial Technology Research Institute; Manager of Huazhan Semiconductor Co., Ltd.; Director of Hualong Microelectronics Co., Ltd.	N/A	major work (education) experiences (Note 2)	
Director Representative of Lianding, Huading, Qiding, Jiuding, Yuanding, Fuding, Wending, Liding Venture Capital, Yiding Biotech Ventures, North Star Venture Capital, InnoBridge International, Rising Star, ELAN (HK) and Power Asia; Corporate Representative and Chairman of Metanoia, Avisonic Technology, Eminent Electronic Technology, PiXORD and Liding Venture Capital; Director of SINOCON Industrial Standards Foundation, Chuwang Technology, Bruckewell Technology	N/A	Currently serving concurrently in the Company and other company	
N/A	N/A	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship	
N/A	N/A	job title	
N/A	N/A	name	
N/A	N/A	relationship	
(Note 1)		Remark	

Director	Director	Job title
Taiwan	Taiwan	Nationality or country of incorporation
CHIU, TE-CHEN	YEN, KUO-LUNG	Name
male	male	Gender
June 11, 2018	June 11, 2018	Date of appointment
3 years	3 years	Term
March 30, 2000	June 14, 1997	Initial appointment date
N/A	2,860,794	Number of shares
N/A	0.65%	Shareholding ratio
N/A	2,002,555	Number of shares
N/A	0.66%	Shareholding ratio
N/A	N/A	Shares currently held by spouse and/or children under 20 years of age
N/A	N/A	Number of shares
N/A	N/A	Shareholding ratio
N/A	N/A	Shares held in the name of others
N/A	N/A	major work (education) experiences (Note 2)
NCCU MBA Program	Graduate Institute of Electrical Engineering, National Taiwan University; Engineer of the Industrial Technology Research Institute; Manager of Hualong Microelectronics	Currently serving concurrently in the Company and other company
Chairman / President of Yiding, Jiding, Heding, Wending Ventures, Yiding Biotech Ventures, Chengding Ventures and BRIM Biotechnology; President / Director of Liding, Lianding, Fuding, Qiding, Huading Internation, Yuanding Ventures Co., Ltd.; Independent Director of Silitech Technology and Chicony Power; Corporate representative of Depo Auto Parts, ShareHope Medicine, Chia Chang, Radbon Avionics Inc.; Director of Avatack co., Ltd.; Director of SINBON Electronics, Symbio Inc.;	Directors of Eminent Electronic Technology; Corporate representative of Avisonic Technology, Metanoia Communications, and Uniband Electronic	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	job title
N/A	N/A	name
N/A	N/A	relationship
		Remark

Independent Director	Director		Job title
	Taiwan	Taiwan	
Taiwan		Taiwan	Nationality or country of incorporation
LIN, HSIEN-MING	WEA, CHI-LIN	Zonglong Investment Co., Ltd.	Name
male	male		Gender
June 11, 2018	June 11, 2018	June 11, 2018	Date of appointment
3 years	3 years	3 years	Term
June 2, 2015	June 12, 2006	June 26, 2002	Initial appointment date
N/A	N/A	4,398,434	Shares held at time of appointment
N/A	N/A	1.0%	
N/A	N/A	4,398,434	Number of shares currently held
N/A	N/A	1.01%	
N/A	N/A	N/A	Shares currently held by spouse and/or children under 20 years of age
N/A	N/A	N/A	
N/A	N/A	N/A	Shares held in the name of others
N/A	N/A	N/A	
Bachelor in Electrical and Computer Engineering, National Chiao Tung University; President of Acer Inc.	Paris University, Ph.D. in Economics; The Imperial College of Science, Technology and Medicine (Imperial College, London), Master of Management; Chairman of Land Bank of Taiwan; Secretary-general, Executive Yuan, Director of International Business, National Taiwan University	N/A	major work (education) experiences (Note 2)
Chairman and Chief Strategy Officer of Wistron Company; Chairman of Wistron Information Technology & Services Corporation; Director of Gamania Digital Entertainment Co., Ltd.; Independent Director of Taiwan Model Semiconductor Co., Ltd.; Chairman of Wiwynn, Wistron Biotech Investment Holding Corporation, Wistron Digital Technology Holding Corporation	Professor of Business Administration, National Taiwan University; Director of Aebel Polytex; Director of Qiding, Huading, Yuanding Ventures; and Independent Director of Inventec Besta, Sinbon and Formosa Plastics	N/A	Currently serving concurrently in the Company and other company
N/A	N/A	N/A	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	N/A	
N/A	N/A	N/A	
			Remark

Independent Director	Independent Director	Job title
Taiwan	Taiwan	Nationality or country of incorporation
CHUNG, RONG-DAR	CHEN, HOMIN	Name
male	male	Gender
June 10, 2019	June 11, 2018	Date of appointment
2 years	3 years	Term
June 10, 2019	June 2, 2015	Initial appointment date
N/A	N/A	Shares held at time of appointment
N/A	N/A	Number of shares
N/A	N/A	Shareholding ratio
N/A	N/A	Number of shares currently held
N/A	N/A	Number of shares
N/A	N/A	Shareholding ratio
N/A	N/A	Shares currently held by spouse and/or children under 20 years of age
N/A	N/A	Number of shares
N/A	N/A	Shareholding ratio
N/A	N/A	Shares held in the name of others
Department of Applied Mathematics National Tsing Hua University; Electronic & Optoelectronic System Research Laboratories of ITRI; Business Division of ELAN Microelectronics Corporation	Ph.D. in Marketing, Business Administration, National Taiwan University; Dean of the Commerce Development Research Institute; Dean of the College of Management, National Chung Hsing University	major work (education) experiences (Note 2)
Director of Mengxin International, Yinghua International	Independent Director of Fulltech Fiber Glass; Director of Roo Hsing Co., Ltd.; Independent Director of Sinbon Electronics	Currently serving concurrently in the Company and other company
N/A	N/A	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	job title
N/A	N/A	name
N/A	N/A	relationship
		Remark

Note 1: The same person as the President in order to promote the Company's operating efficiency and reduce the management level. Responding measure: More than half of the directors on the Board of Directors are not concurrently serving as employees or managers.

1.2. Main shareholders of corporate shareholders

March 29, 2020

name of the corporate shareholders	main shareholders of corporate shareholders
Yulong Investment Co., Ltd.	YEH, I-HAU (100%)
Zonglong Investment Co., Ltd.	YEH, I-HAU (100%)

1.3. Independence of the Directors and Supervisors:

March 29, 2020

Qualification	Does he/she have more than 5yrs of work experience and the following professional qualifications?			Degree of independence												Number of independent directors serving concurrently as independent director of other public companies
	Public and private universities lecturer (or above) in business, legal, financial, accounting or other fields related to the business of the Company	Judge, prosecutor, lawyer, accountants or other certified professionals and technicians in the fields related to the business of the Company	Work experience in business, legal, financial, accounting or other fields related to the business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
Name																
Yulong Investment Representative YEH, I-HAO			V					V	V		V	V	V	V		
YEN, KUO-LUNG			V			V	V	V	V	V	V	V	V	V	V	
CHIU, TE-CHEN			V	V	V	V	V	V	V	V	V	V	V	V	V	2
Zonglong Investment Representative WEA, CHI-LIN	V		V	V	V	V	V	V	V	V	V	V	V	V		3
LIN, HSIEN-MING			V	V	V	V	V	V	V	V	V	V	V	V	V	1
CHEN, HOMIN	V		V	V	V	V	V	V	V	V	V	V	V	V	V	2
CHUNG, RONG-DAR			V	V	V	V	V	V	V	V	V	V	V	V	V	0

- (1) Not an employee of the Company nor its affiliates;
- (2) Not a director or supervisor of the Company's affiliate (this does not apply to the independent director established pursuant to the Act or local law of the Company or its parent company and/or subsidiary);
- (3) Not a person, or his/her spouse, or his/her children under twenty (20) years of age, or in the name of others, who holds more than 1 percent of the Company's total shares issued or a top 10 natural person shareholder;
- (4) Not the spouse, a relative by blood or marriage within second degree of kinship or relationship or a relative by blood within fifth degree of kinship of those listed in (1) – (3);
- (5) Not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the Company's total shares issued, nor a director, supervisor or employee of top five shareholders, nor a director, supervisor or employee of a corporate shareholder who is appointed to act as corporate director or supervisor pursuant to Article 27 paragraphs 1 or 2 of the Company Act (however, this does not apply to the independent directors established and inter-concurrently served between the Company and its parent company, subsidiaries or a subsidiaries under the same parent company pursuant to the Company Act or local national laws and regulations).
- (6) Not a director, supervisor or employee of other company which is controlled by the same person who holds more than half of the director seats or voting rights of the Company (however, this does not apply to the independent directors established and inter-concurrently served between the Company and its parent company, subsidiaries or a subsidiaries under the same parent company pursuant to the Company Act or local national laws and regulations).
- (7) Not another company or organization's director (council), supervisor or employee who is also the Company's chairman, president (or equivalent) or the spouse thereof (however, this does not apply to the independent directors established and inter-concurrently served between the Company and its parent company, subsidiaries or a subsidiaries under the same parent company pursuant to the Company Act or local national laws and regulations).
- (8) Not a director, supervisor or employee of a specific company or organization which directly holds more than 5% of

the Company's total shares issued, nor a director, supervisor or employee of a top 5 corporate shareholder (however, this does not apply to specific company or organization holding 20% (inclusive) ~ 50% of the Company's total issued shares and independent directors were established and inter-concurrently served between the Company and its parent company, subsidiaries or a subsidiaries under the same parent company pursuant to the Company Act or local national laws and regulations).

- (9) Not a professional providing audit or business, legal, financial, and accounting services or consultation to the Company or its affiliates with cumulative remuneration of less than NT\$500,000 in the past two years; not an owner, partner, directors (council), supervisor, manager or his/her spouse of a sole proprietorships, partnership, company or institution (however, this does not apply to member of the Remuneration Committee, Public Tender Offers Review Committee or Special Committees for Merger / Consolidation and Acquisition pursuant to the Securities and Exchange Act or the Business Mergers And Acquisitions Act).
- (10) Not a spouse or a relative by blood or marriage within second degree of kinship or relationship of another director;
- (11) Not having any one of the circumstances as identified in Article 30 of the Company Act;
- (12) Not a government agency, juristic person or its proxy pursuant to Article 27 of the Company Act.

Chief Finance and Accounting Officer	Taiwan	CHEN, I-LIN	male	June 28, 2013	0	0	N/A	N/A	N/A	N/A	Department of Accounting and Information Technology; National Chengchi University Department of Finance; Deputy Manager of Klynveld Peat Marwick Goerdeler; Manager of Elantech Devices Corporation; Senior Manager of ELAN Microelectronics Corporation	N/A	N/A	N/A	
--------------------------------------	--------	-------------	------	---------------	---	---	-----	-----	-----	-----	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----	-----	-----	--

Note 1: All job positions, regardless of the job title, equivalent to President, Vice President or Director shall be disclosed.

Note 2: If the experiences related to the current position involves serving in the firm of the auditing Certified Public Accountant or its affiliate during the prior period thereof, the job title and job descriptions therein shall be specified.

Note 3: The same person as the Chairman in order to promote the Company's operating efficiency and reduce the management level. Responding measure: More than half of the directors on the Board of Directors are not concurrently serving as employees or managers.

(3) Remunerations paid to the Directors, Supervisors, President and Vice President during the last fiscal year:

3.1 General Director and Independent Directors' remuneration

December 31, 2019
unit: NT\$'000 / '000 share

Job title	Name	Directors' remuneration								Percentage of A+B+C+D to Net Income After Taxes [Note 10]		Compensations received as an employee								Percentage of A+B+C+D+E+F+G to Net Income After Taxes [Note 10]		Remuneration received from nonsubsidiary joint venture business [Note 11]
		Remuneration (A) [Note 2]		Pension (B) [Note 1]		Directors' remuneration (C) [Note 3]		Business execution costs (D) [Note 4]				Salary, bonus and special disbursement (E) [Note 5]		Pension (F) [Note]		Employee compensation (G) [Note 6]						
		The Company	All companies listed in the financial statements (Note 7)	The Company	All companies listed in the financial statements (Note 7)	The Company	All companies listed in the financial statements (Note 7)	The Company	All companies listed in the financial statements (Note 7)	The Company	All companies listed in the financial statements (Note 7)	The Company	All companies listed in the financial statements (Note 7)	The Company		All companies listed in the financial statements (Note 7)		the Company	all companies listed in the financial statements (Note 8)			
																cash amount	amount in shares	cash amount	amount in shares			
Chairman	Yulong Investment Co., Ltd.	1,550	1,550	0	0	43,500	43,500	0	0	1.80%	1.80%	22,396	27,719	292	292	11,628	0	11,628	0	3.18%	3.39%	1,890
	YEH, I-HAU																					
Director	YEN, KUO-LUNG																					
Director	Zonglong Investment Co., Ltd.																					
	WEA, CHI-LIN																					
Director	CHIU, TE-CHEN																					
Independent Director	LIN, HSIEN-MING																					
Independent Director	CHEN, HOMIN																					
Independent Director	CHUNG, RONG-DAR [Note 2]																					

1. Please state the policy, system, standards and structure for the payment of independent director's remuneration, and describe the relevance to the amount of remuneration according to the responsibilities, risks, time invested and other factors:

According to the Company's "Directors' Remuneration Management Measures", the monthly remuneration of an independent director of the Company is set as NT\$50,000, which shall be paid regardless of the Company's profit or loss, provided that the independent director does not take part in the directors' remuneration from annual profit distribution. Any director who leaves the Company due to re-election or resignation during the term of office shall be paid thereof according to the proportion of their actual term to the entire year.

2. The remuneration received by the Company's Directors for services rendered (such as serving as non-employee consultants) to all companies listed in the financial statements other than those disclosed in the schedule above: N/A

[Note 1] "Pension" referred to the pension amount contributed in 2019.

[Note 2] CHUNG, RONG-DAR was elected on June 10, 2019 as the substitute serving the office.

Schedule of Remuneration

Remuneration range paid to each Director of the Company	Director's name			
	Total remuneration amount (A+B+C+D)		Total remuneration amount (A+B+C+D+E+F+G)	
	The Company (Note 8)	All companies listed in the financial statements (Note 9) H	The Company (Note 8)	All joint venture businesses (Note 9) I
Less than NT\$1,000,000	CHIU, TE-CHEN, YEN, KUO-LUNG, Yulong Investment, Zonglong Investment	WEA, CHI-LIN, CHIU, TE-CHEN, YEN, KUO-LUNG, Yulong Investment, Zonglong Investment	WEA, CHI-LIN, CHIU, TE-CHEN, YEN, KUO-LUNG, Yulong Investment, Zonglong Investment	CHIU, TE-CHEN, YEN, KUO-LUNG, Yulong Investment, Zonglong Investment
NT\$1,000,000 (including)~ NT\$2,000,000(excluding)				
NT\$2,000,000 (including) ~ NT\$3,500,000(excluding)				
NT\$3,500,000 (including) ~ NT\$5,000,000(excluding)				
NT\$5,000,000 (including) ~ NT\$10,000,000(excluding)	WEA, CHI-LIN, CHIU, TE-CHEN;YENKUO-LUNG; Yulong Investment; Zonglong Investment;	WEA, CHI-LIN, CHIU, TE-CHEN;YENKUO-LUNG; Yulong Investment; Zonglong Investment;	WEA, CHI-LIN, CHIU, TE-CHEN; Yulong Investment; Zonglong Investment;	WEA, CHI-LIN, CHIU, TE-CHEN; Yulong Investment; Zonglong Investment;
NT\$10,000,000 (including)~ NT\$15,000,000(excluding)				
NT\$15,000,000 (including) ~ NT\$30,000,000(excluding)			YEH, I-HAU; YEN, KUO-LUNG	YEH, I-HAU; YEN, KUO-LUNG
NT\$30,000,000 (including)~ NT\$50,000,000(excluding)				
NT\$50,000,000 (including) ~ NT\$100,000,000(excluding)				
NT\$100,000,000 or above				
Total	8 seats	8 seats	9seats	9 seats

Note 1: The names of the Directors shall be separately presented (a corporate shareholder shall list the name of the corporate shareholder and its representative separately) as general director or independent director respectively, and disclose the amount of each payment in a consolidated manner. If a Director is serving concurrently as a President or Vice President, this form and form (3-1) or (3-2-1) and (3-2-2) hereinunder shall be filled in.

Note 2: Referred to the Directors' remuneration in the last fiscal year (including Directors' salary, supervisory differential pay, termination pay, various bonuses, incentives, etc.).

Note 3: Fill in Directors' remuneration amount of the last fiscal year authorized by the Board of Directors to be distributed.

Note 4: Referred to the relevant business execution costs (including transportation allowances, special disbursements, various allowances, living quarters, assigned company cars, etc.) of the Directors incurred during the last fiscal year. If house, car and other transportation or personal expenditures are provided, the nature and costs of the assets so provided, actual rent or rent at fair market value, gasoline allowances and other payments shall be disclosed. In addition, if driver(s) is provided, please specify relevant compensation of the driver(s) paid by the Company, of which shall not be included in the remuneration.

Note 5: Referred to the salary, supervisory differential pay, termination pay, various bonus, incentives, transportation allowances, special disbursements, various allowances, living quarters and assigned company cars of the Directors for serving concurrently as employee (including serving concurrently as President, Vice President, other manager and employee) incurred during the last fiscal year. If house, car and other transportation or personal expenditures are provided, the nature and costs of the assets so provided, actual rent or rent at fair market value, gasoline allowances and other payments shall be disclosed. In addition, if driver(s) is provided, please specify relevant compensation of the driver(s) paid by the Company, of which shall not be included in the remuneration. Furthermore, salary expenses, including employee

stock option certificate(s), restricted stock award(s) and participation in stock options at cash capital increase, recognized pursuant to IFRS 2 “Share-based Payment” shall also be included in the remuneration.

- Note 6: The employee compensation (including shares and cash) of the Directors serving concurrently as employee (including serving concurrently as President, Vice President, other manager and employee) during the last fiscal year shall be disclosed upon the Board of Directors’ authorization to distribute. If the amount cannot be estimated, the proposed amount to be distributed shall be based on the proportional actual distributed amount of the previous year and fill out the attached form 1 – 3.
- Note 7: The total amount of various remunerations paid to the Company’s Directors by the companies (including the Company) listed in the consolidated financial statements shall all be disclosed.
- Note 8: The total amount of various remunerations paid to each Director by the Company shall be disclosed in the Schedule of Remuneration along with name of the Directors.
- Note 9: The total amount of various remunerations paid to each Director by the companies listed in the consolidated financial statements shall be disclosed in the Schedule of Remuneration along with name of the Directors.
- Note 10: Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.
- Note 11: a) The remuneration amount received by the Company’s Directors from the related nonsubsidiary joint venture business(es) or parent company shall be clearly stated in this field if applicable, otherwise, fill in as “N/A”.
- b) If the Company’s Directors received remuneration from related nonsubsidiary joint venture business(es) or parent company, the remuneration received by the Company’s Directors from nonsubsidiary joint venture business(es) or parent company shall be consolidated in field-I of the Schedule of Remuneration and revise the field name to be “parent company and all joint venture businesses”.
- c) The remuneration referred to the remunerations (including employee compensation and Directors and Supervisors’ remuneration) and business execution costs related compensation received by the Company’s Directors for serving as Directors, Supervisors or managers in the nonsubsidiary joint venture business(es) or parent company.

3.2 Supervisors' remuneration: The Company has appointed 3 Independent Directors in 2015 to establish the Audit Committee in lieu of Supervisors; therefore, there was no Supervisors' remuneration in 2019.

3.3 President and Vice President's remunerations:

December 31, 2019
Unit: NT\$'000 / '000 shares

Job title	Name	Salary (A) (Note 2)		Pension (B)		Bonus and special disbursement (C) (Note 3)		Employee compensation amount (D) (Note 4)				Percentage of A+B+C+D to Net Income After Taxes (Note 8)		remuneration received from nonsubsidiary joint venture business (Note 9)
		The Company	All companies listed in the financial statements (Note 5)	The Company	All companies listed in the financial statements (Note 5)	The Company	All companies listed in the financial statements (Note 5)	The Company		All companies listed in the financial statements (Note 5)		The Company	All companies listed in the financial statements (Note 5)	
								Cash amount	Amount in shares	Cash amount	Amount in shares			
President	YEH, I-HAU	16,471	21,034	292	292	5,925	6,685	11,628	0	11,628	0	1.37%	1.59%	490
Execute Vice President	YEN, KUO-LUNG													

[Note] "Pension" referred to the pension amount contributed in 2019.

Schedule of Remuneration

Remuneration range paid to each President and Vice President of the Company	Name of the President and Vice President	
	The Company (Note 6)	Parent company and all joint venture businesses (Note 7) E
Less than NT\$1,000,000		
NT\$1,000,000 (including)~ NT\$2,000,000(excluding)		
NT\$2,000,000 (including) ~ NT\$3,500,000(excluding)		
NT\$3,500,000 (including) ~ NT\$5,000,000(excluding)		
NT\$5,000,000 (including) ~ NT\$10,000,000(excluding)		
NT\$10,000,000 (including)~ NT\$15,000,000(excluding)	YEN, KUO-LUNG	YEN, KUO-LUNG
NT\$15,000,000 (including) ~ NT\$30,000,000(excluding)	YEH, I-HAU	YEH, I-HAU
NT\$30,000,000 (including)~ NT\$50,000,000(excluding)		
NT\$50,000,000 (including) ~ NT\$100,000,000(excluding)		
NT\$100,000,000 or above		
Total	2 persons	2 persons

Note 1: The names of the President and Vice President shall be separately presented and disclose the amount of each payment in a consolidated manner. If a Director is serving concurrently as a President or Vice President, this form and form (1-1) or (1-2) hereinafter shall be filled in.

Note 2: Referred to the President and Vice President's remuneration in the last fiscal year (including Directors' salary, supervisory differential pay, termination pay, various bonuses, incentives, etc.).

Note 3: Fill in various bonus, incentives, transportation allowances, special disbursements, various allowances, living quarters, assigned company cars and other remuneration amount of the President and Vice President incurred during the last fiscal year. If house, car and other transportation or personal expenditures are provided, the nature and costs of the assets so provided, actual rent or rent at fair market value, gasoline allowances and other payments shall be disclosed. In addition, if driver(s) is provided, please specify relevant compensation of the driver(s) paid by the Company, of which shall not be included in the remuneration. Furthermore, salary expenses, including employee stock option certificate(s), restricted stock award(s) and participation in stock options at cash capital increase, recognized pursuant to IFRS 2 "Share-based Payment" shall also be included in the remuneration.

Note 4: The employee compensation (including shares and cash) of the President and Vice President during the last fiscal year authorized to be distributed by the Board of Directors. If the amount cannot be estimated, the proposed amount to be distributed shall be based on the proportional actual distributed amount of the previous year and fill out the attached form 1 – 3. Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 5: The total amount of various remunerations paid to the Company's President and Vice President by the companies (including the Company) listed in the consolidated financial statements shall all be disclosed.

Note 6: The total amount of various remunerations paid to each President and Vice President by the Company shall be disclosed in the Schedule of Remuneration along with name of the President and Vice President.

Note 7: The total amount of various remunerations paid to each President and Vice President by the companies listed in the consolidated financial statements (including the Company) shall be disclosed in the Schedule of Remuneration along with name of the President and Vice President.

Note 8: Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 11: a) The remuneration amount received by the Company's Directors from the related nonsubsidiary joint venture business(es) or parent company shall be clearly stated

in this field if applicable, otherwise, fill in as “N/A”.

b) If the Company’s Directors received remuneration from related nonsubsidiary joint venture business(es) or parent company, the remuneration received by the Company’s Directors from nonsubsidiary joint venture business(es) or parent company shall be consolidated in field-I of the Schedule of Remuneration and revise the field name to be “parent company and all joint venture businesses”.

c) The remuneration referred to the remunerations (including employee compensation and Directors and Supervisors’ remuneration) and business execution costs related compensation received by the Company’s Directors for serving as Directors, Supervisors or managers in the nonsubsidiary joint venture business(es) or parent company.

3.4 Name(s) of the manager(s) and the employee compensation distributed:

December 31, 2019

Unit: NT\$'000 / share

	Job title (Note 1)	Name (Note 1)	Stock bonus amount	Cash bonus amount	Total	Percentage of the total amount to Net Income After Taxes
managers	President	YEH, I-HAU	0	12,340	12,340	0.49%
	Executive Vice President	YEN, KUO-LUNG				
	Chief Finance and Accounting Officer	CHEN, YI-LIN				

Note 1: The names and job title(s) of the manager(s) shall be presented and disclose the amount of profit distribution in a consolidated manner.

Note 2: The employee compensation (including shares and cash) of the manager(s) during the last fiscal year authorized to be distributed by the Board of Directors. If the amount cannot be estimated, the proposed amount to be distributed shall be based on the proportional actual distributed amount of the previous year. Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 3: "Manager" shall, pursuant to the provisions prescribed in document number Tai-Cai-Zheng-San-Zi-0902001301 issued by the Chamber on 27 March 2003, include the following:

- (1) President and those assuming equivalent position;
- (2) Vice President and those assuming equivalent position;
- (3) Director and those assuming equivalent position;
- (4) Chief Financial Officer
- (5) Chief Accounting Officer
- (6) Other managing personnel and signatory of the Company.

Note 4: The Director, President and Vice President who received employee compensation (including shares and cash) shall, in addition to filling out the attached for 1 – 2, also fill out this form.

- (4) Analysis on the percentage of total remuneration amount paid to the Company's Directors, Supervisors, President and Vice President by the Company and all companies listed in the consolidated financial statements to Net Income After Taxes during the past 2 years and explain the policies, standards and mix of remuneration, the procedures of setting the remuneration, and the correlation with operating performance:

Unit: NT\$'000

Job title	2019				2018			
	The Company		All companies listed in the consolidated financial statements		The Company		All companies listed in the consolidated financial statements	
	Total remuneration amount	Percentage to Net Income After Taxes	Total remuneration amount	Percentage to Net Income After Taxes	Total remuneration amount	Percentage to Net Income After Taxes	Total remuneration amount	Percentage to Net Income After Taxes
Director	45,050	1.80%	45,050	1.80%	30,600	1.96%	30,600	1.96%
Supervisor	0	0%	0	0%	0	0%	0	0%
President and Vice President	34,316	1.37%	39,639	1.59%	30,269	1.94%	35,647	2.29%

Explanation:

- (1) The remunerations of the Company's Directors and managers are subject to provisions of the Articles of Association, which shall be reviewed by the Remuneration Committee based on each Director and manager's degree of participation and contribution in the Company's operation and submitted to the Board of Directors after taking into account the payment standard in the industry;
- (2) The 2019 Profit Distribution was the proposed distribution amount; the 2018 Profit Distribution was the actual distributed remuneration;
- (3) The directors' remuneration was increased in 2019 compared with that of in 2018 mainly due to profit increase in 2019 compared with that of in 2018, which resulted in the increase in the directors' remuneration so recognized. The 2019 increment of directors' remuneration is equivalent to the increment of net profit after tax, and the total increment of directors' remuneration is not greater than the increment of net profit after tax.

3. Implementation of Corporate Governance:

(1) Operation of the Board of Directors:

(1) Operation of the Board of Directors:

The Board of Directors has held 6 meetings (A) during the last fiscal year, and the attendance thereof is described as follows:

Job title	Name	Actual number of times of attendance [B]	Number of times attended by a proxy	Actual attendance rate (%) [B/A]	Remarks
Chairman	Yulong Investment Co., Ltd. representative: YEH, I-HAU	6	0	100%	
Director	YEN, KUO-LUNG	6	0	100%	
Director	Zonglong Investment Co., Ltd. representative: WEA, CHI-LIN	4	2	67%	
Director	CHIU, TE-CHEN	5	1	83%	
Independent Director	LIN, HSIEN-MING	5	1	83%	
Independent Director	CHEN, HOMIN	6	0	100%	
Independent Director	CHUNG, RONG-DAR	4	0	100%	Was elected on June 10, 2019 as the substitute serving the office

Other items to be noted:

- In the event of any of the following circumstances concerning the operation of the Board of Directors, the date, session number, agenda of the Board meeting, all Independent Director's opinions and how the Company process the Independent Director's opinions shall be specified:
 - Matters relating to Article 14-3 of the Securities and Exchange Act: Not applicable; the Company has established the Audit Committee.
 - Other Board resolutions, except the matters mentioned above, opposed or given qualified opinion by Independent Director(s) with record(s) or written statement(s): not applicable.
- Where the Director avoided conflict of interests, specify the Director's name, agenda, reason for the avoidance of conflict of interests and participation in voting: not applicable.
- The TWSE/GTSM Listed Companies shall disclose the cycle, period, scope, method and contents of the Board's self (or by peer) evaluation and other information, and fill out Schedule 2 "Results of the Implementation of Board of Directors' Evaluation": the 2019 Results of the Implementation of Board of Directors' Evaluation are shown in the schedule below.
- The goals to strengthen the functions of the Board of Directors (such as establishing an Audit Committee, enhance information transparency, etc.) for the current year and last fiscal year and assessment on the execution: On 2 June 2015, 3 Independent Directors were appointed during the shareholders' meeting and formed an Audit Committee to improve the diversity among the Board members; the Board of Directors and Audit Committee conduct performance evaluation and self-assessment to implement corporate governance and enhance functions of the Board.

(2) Results of the Implementation of Board of Directors' Evaluation:

Evaluation cycle (Note 1)	Evaluation Period (Note 2)	Scope of the evaluation (Note 3)	Method of the evaluation (Note 4)	Contents of the evaluation (Note 5)
Once a year	January 1, 2019 to December 31, 2019	Board of Directors	Self-evaluation by the Board member	The level of participation in the Company's operations, quality of decision-making of the Board of Directors, composition and structure of the Board of Directors, Election, appointment and continuous training of the directors, internal control.
Once a year	January 1, 2019 to December 31, 2019	Audit Committee	Self-evaluation by the Board member	The level of participation in the Company's operations, understanding of the duties of the functional committee, quality of decision-making of the functional committee, composition of the functional committee, election and appointment of members of the functional committee, internal control.
Once a year	January 1, 2019 to December 31, 2019	Individual member of the Board	Self-evaluation by the Board member	The level of mastering the Company's goals and tasks, understanding of director's duties, level of participation in the Company's operations, internal relationship management and communication, continuous training of Director's profession, internal control

Note 1: Fill in the cycle of evaluation executed by the Board of Directors (e.g. once a year).

Note 2: Fill in the period of evaluation of the Board of Directors (e.g. evaluate the Board of Directors' performance for the period of January 1, 2019 to December 31, 2019).

Note 3: The scope of the evaluation, which includes performance evaluation on the Board of Directors, Individual member of the Board and functional committee.

Note 4: The method of evaluation, which includes internal self-evaluation of the Board of Directors, self-evaluation by the Board member, peer evaluation, commissioned performance evaluation by external professional institutions, experts or other appropriate methods.

Note 5: The contents of evaluation, which include at least the following items according to the scope of evaluation:

- (1) Performance evaluation on the Board of Directors: which at least include the level of participation in the Company's operations, quality of decision-making of the Board of Directors, composition and structure of the Board of Directors, election, appointment and continuous training of the directors, internal control, etc.
- (2) Performance evaluation on the individual member of the Board: which at least include the level of mastering the Company's goals and tasks, understanding of director's duties, the level of participation in the Company's operations, internal relationship management and communication, director's profession and continuous training, internal control, etc.
- (3) Performance evaluation on the functional committees: the level of participation in the Company's operations, understanding of functional committee's duties, the quality of decision-making of the functional committees, composition and structure of the functional committees, election and appointment of members of the functional committee, internal control, etc.

(2) Operation of the Audit Committee:

Audit Committee's objective is to assist the Board of Directors in overseeing the quality and integrity of the Company's accounting, auditing, and financial reporting processes and financial control.

The subjects reviewed by the audit committee mainly consist of:

- Financial statements;
- Audit and accounting policies and procedures;
- Internal control system and related policies and procedures;
- Major asset or derivative commodity transactions;
- Major capital loan and endorsement or guarantee;
- Placement or issuing securities;
- Derivative financial products and cash investment;
- Compliance;
- Whether there are related party transactions and possible conflicts of interest between the manager and director;
- Complaint filing;
- Fraud prevention plan and fraud investigation report;
- Information security;
- Corporate risk management;
- Qualification, independence and performance evaluation of Certified Public Accountant;
- Appointment, dismissal or remuneration of Certified Public Accountant;
- Appointment and removal of the head of finance, accounting or internal audit;
- Performance of Audit Committee's duties; and
- Self-assessment questionnaire for performance evaluation on Audit Committee.

- Evaluate the effectiveness of the internal control system

The Audit Committee assesses the Company's internal control system policies and procedures (including finance, operation, risk management, information security, outsourcing, compliance and other control measures), and reviews the periodic reports of the Company's audit department and Certified Public Accountant.

- Review of financial report

The Board of Directors has prepared the Company's 2019 business report, financial statements, profit distribution proposal, etc., of which the financial statements were commissioned to Klynveld Peat Marwick Goerdeler (KPMG) for audit with an audit report issued upon completion thereby. The Audit Committee had reviewed and believed that there are no discrepancies in the above-mentioned business report, financial statements and profit distribution proposal.

The Audit Committee has held 5 meetings (A) during the last fiscal year, and the attendance of the Independent Director is described as follows:

Job title	Name	Actual number of times of attendance [B]	Number of times attended by a proxy	Actual attendance rate (%) [B/A] (Note)	Remarks
Independent Director	CHEN, HOMIN	5	0	100%	
Independent Director	LIN, HSIEN-MING	4	1	80%	
Independent Director	CHUNG, RONG-DAR	3	0	100%	Was elected on June 10, 2019 as the substitute serving the office
Other items to be noted:					
1. In the event of any of the following circumstances concerning the operation of the Audit Committee, the date, session number, agenda of the Board meeting, the Audit Committee resolution and how the Company process the Audit Committee resolution shall be specified.					
(1) Matters relating to Article 14-5 of the Securities and Exchange Act;					
(2) Other Board resolutions, except the matters mentioned above, authorized by 2/3 (or above) of the Directors byt opposed by the Audit Committee:					
Board Meeting	Agenda and subsequent processes			Matters	Board resolutions

		relating to Article 14-5 of the Securities and Exchange Act	authorized by 2/3 (or above) of the Directors byt opposed by the Audit Committee	
The Ninth Session No. 5 March 12, 2019	1. To discuss about the Company's 2018 self-closing financial statements and consolidated financial statements.	V		
	2. To pass the internal control design and Statement on Internal Control.	V		
	3. To appoint accountant(s) of Klynveld Peat Marwick Goerdeler (KPMG) to audit and certify the Company's 2019 financial statements and tax reports.	V		
	4. Proposal for an amendment on the operating procedures of acquisition or disposal of assets	V		
	The Audit Committee resolutions (March 12, 2019): all members of the Audit Committee have agreed to authorize.			
	How the Company process the Audit Committee resolution: all attending Directors agreed to authorize.			
The Ninth Session No. 6 May 9, 2019	1. Proposal for an amendment on the "Guidelines for Endorsement"	V		
	Audit Committee resolution (May 9, 2019): all members of the Audit Committee have agreed to authorize.			
	The Company's means of dealing with Audit Committee's resolution: all attending Directors agreed to authorize.			
The Ninth Session No. 7 August 13, 2019	1. To discuss about the Company's Q2 / 2019 self-closing financial statements and consolidated financial statements.	V		
	The Audit Committee resolutions (August 13, 2019): all members of the Audit Committee have agreed to authorize.			
	How the Company process the Audit Committee resolution: all attending Directors agreed to authorize.			
The Ninth Session No. 8 November 11, 2019	1. Subscription in Avisonic Technology Corp.'s 2019 first cash capital increase.	V		
	2. Subscription in Uniband Electronic Corporation's 2019 cash capital increase.	V		
	The Audit Committee resolutions (November 8, 2019): all members of the Audit Committee have agreed to authorize.			
	How the Company process the Audit Committee resolution: all attending Directors agreed to authorize.			
The Ninth Session No. 9 December 20, 2019	1. Subscription in Eminent Electronic Technology Co., Ltd.'s 2019 first cash capital increase.	V		
	2. Subscription in Rising Star Ltd.'s 2019 cash capital increase.	V		
	3. Additional subscription in Metanoia Communications Inc.'s 2019 cash capital increase.	V		
	The Audit Committee resolutions (December 20, 2019): all members of the Audit Committee have agreed to authorize.			
	How the Company process the Audit Committee resolution: all attending Directors agreed to authorize.			

2. Where the Independent Director avoided conflict of interests, specify the Independent Director's name, agenda, reason for the avoidance of conflict of interests and participation in voting: not applicable.

3. Communication between the Independent Director and chief audit executive and accountant (include major topics, methods and results relating to the Company's financial and business status that shall be communicated):

Summary of communication between independent directors and internal audit supervisor:

Date	Method of communication	Key points	Recommendations and results
March 12, 2019	Audit Committee	1、Internal Audit Report from December 2018 to January 2019. 2、2018 "Statement on Internal Control".	No objection
May 9, 2019	Audit Committee	Internal Audit Report from February 2019 to March 2019.	No objection
August 13, 2019	Audit Committee	Internal Audit Report from April 2019 to June 2019.	No objection
November 8, 2019	Audit Committee	Internal Audit Report from July 2019 to September 2019.	No objection
December 20, 2019	Audit Committee	Internal Audit Report from October 2019 to November 2019.	No objection

Summary of communication between independent directors and internal audit supervisor:

Date	Key points	Recommendations
------	------------	-----------------

			and results	
	March 12, 2019	1. Auditor's responsibility to audit the financial statements; 2. The scope of audit; 3. Audit result; 4. Independence; 5. Updates on important accounting standards or interpretations, FSC rules and tax laws and regulations.	No objection	

Note:

- * If an Independent Director left his/her position before the end of the year, the date he/she left the position shall be specified in the "remarks" field and the actual attendance rate (%) shall be calculated based on the number of Audit Committee meetings and his/her actual number of times of attendance during his/her term.
- * If there is an independent director re-election before the end of the year, the information of both previous and new Independent Directors shall be filled in the "remarks" field specifying who is the previous Independent Director, who is the new or re-elected Independent Director and the re-election date; and the actual attendance rate (%) shall be calculated based on the number of Audit Committee meetings and his/her actual number of times of attendance during his/her term.

(3) Supervisors' participation in the operation of the Board of Directors: N/A. The Company has established the Audit Committee in lieu of Supervisors in 2015.

(4) Differences between the corporate governance status and the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor:

Assessment items	Operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations	
1. Did the Company set and disclose the Code of Corporate Practice pursuant to the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”?	V		The Company’s Board of Directors had established the “Code of Corporate Governance” On November 8, 2018 and announced it on the Company’s website and Market Observation Post System.	N/A
2. The Company’s equity structure and shareholders equity				
(1) Did the Company set and implement internal operating procedures to process shareholders’ advises, doubts, disputes and litigation matters?	V		The Company has set up Spokesperson system and legal department to process relevant issues.	N/A
(2) Did the Company master the list of the Company’s major shareholders and ultimate controllers of the major shareholders?	V		The Company has set up personnel dedicated to stocks/shares related matters and entrusted agent Masterlink Securities to process stocks/shares related affairs.	N/A
(3) Did the Company establish and execute risk management and firewall mechanisms with its affiliates?	V		The Company has formulated the “Regulations on the Operating Management of Subsidiary” as the basis for control.	N/A
(4) Did the Company set internal regulations prohibiting the Company’s staff members from using undisclosed information in securities trading?	V		The Company has formulated the “Major Internal Information Processing Procedures” and “Ethical Code of Conduct” specifications.	N/A
3. Composition and responsibilities of the Board of Directors				
(1) Did the Board of Directors formulate and implement a diversified approach for the member composition?	V		1. The Company adopted the “Code of Corporate Governance” on the Ninth Session No. 3 Board meeting on November 8, 2018, of which diversified policy was set out in Chapter 3 “Strengthening the Board Functions”. The nomination and selection of the Board members of the Company adopts the nomination system for candidates as prescribed in the Articles of Association and abides by the “Guidelines Governing the Election of Directors” and “Code of Corporate Governance” to ensure the diversity and independence of the Board members.	N/A
(2) Did the Company, in addition to the establishment of the Remuneration Committee and Audit Committee by laws, voluntarily establish other types of functional committees?		V		
(3) Did the Company set methods of evaluating the performances of the Board of Directors perform the evaluation regularly on a yearly basis and report the performance evaluation results to the Board of Directors as references for individual director’s remuneration and nomination?	V		2. The Company’s current Board of Directors consists of 4 directors and 2 independent directors. Among the directors, there are those specialized in leadership, operational judgment, management, crisis management, industrial and international market knowledges such as YEH, I-HAU, YEN, KUO-LUNG, CHIU, TE-CHEN, WEA, CHI-LIN; CHIU, TE-CHEN has many years experiences in venture capital management and rich experiences in the industry; WEA, CHI-LIN has served as a professor in government unit and university and is currently chairman of a bills finance company with rich industrial, government, and academic experiences; Independent director CHEN, HOMIN is currently a professor in College of Commerce of a national university, providing relevant academic views to the Company. Another independent director CHUNG, RONG-DAR has many years of practical experience in the domestic IC design industry.	Will establish other functional committees according to the actual Operating needs of the Company.
(4) Did the Company regularly evaluate the independence of the Certified Public Accountant?	V		3. Among the Company’s directors, 29% of them are employees, 43% of them are	N/A

Assessment items	Operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations	
			<p>independent directors. The term of 1 director is less than 1 year; the term of both directors is 5 years, and their ages are between 60-69. There is one director whose age is over 70 years old; there are two director whose age is between 60 to 69 years old; and there is one director whose age is below 60 years old. The Company pays attention to the gender equality in the composition of the Board of Directors, with at least one female director. It is expected that one more female director will be added in the recent board election to achieve the goal.</p> <p>Currently, no other functional committees has been established.</p> <p>The Company’s Board of Directors has formulated the “methods of evaluating the performances of the Board of Directors” on December 21, 2018, which stipulated that the Board of Directors shall perform an internal Board performance evaluation once a year. The internal evaluation period of the Board of Directors shall be at the end of each year, which shall conduct annual performance evaluations on the entire Board of Directors, individual Board members and the functional committees. The results of the Board’s internal performance evaluation shall be completed prior to the earliest Board meeting of the following year.</p> <p>Performance evaluation of the Board of Directors (functional committee):</p> <ol style="list-style-type: none"> 1. The level of participation in the Company's operations. 2. Improve the quality of decision-making of the Board of Directors. 3. Composition and structure of the Board of Directors. 4. Election, appointment and continuous training of the directors. 5. Internal control. <p>Performance evaluation of the Board members (self or peers) shall at least cover the following six aspects:</p> <ol style="list-style-type: none"> 1. The level of mastering the Company's goals and tasks. 2. Understanding of director's duties. 3. The level of participation in the Company's operations. 4. Internal relationship management and communication. 5. Director’s profession and continuous training. 6. Internal control. <p>At the end of each year, each implementation unit shall collect relevant information concerning activities of the Board of Directors and distribute relevant self-assessment questionnaires to fill out. Then, the organizing implementation unit shall collect the data, record the evaluation results report and sends it to the Board of Directors for report.</p> <p>The Company has completed the performance evaluation of the Board of Directors and the</p>	

Assessment items	Operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor																								
	Yes	No	Brief explanations																									
			<p>directors in February 2020 and reported in the Board meeting on March 10, 2020. Results of the performance evaluation of the Company’s Board member are all good.</p> <p>The Company assessed the independence of the accountant on yearly basis and has submitted the results on 10 March 2020 to the Audit Committee and the Board of Directors for authorization before the appointment of the accountant. The Company has evaluated Accountant CHOU, PAO-LIEN and Accountant TSENG, MEI-YU of Klynveld Peat Marwick Goerdeler (KPMG) and concluded with the issuance of written statement that they both met the Company’s independence assessment standards (Note 1) and are suitable to serve as the Company’s Certified Public Accountants and accounting firm.</p> <p>Note 1: Independence assessment standards for accountant(s)</p> <table><tr><th>assessment items</th><th>assessment results</th><th>independence</th></tr><tr><td>1. Does the Accountant has direct or major indirect financial interests with the Company?</td><td>No</td><td>Yes</td></tr><tr><td>2. Does the Accountant have financing or guarantee behaviors with the Company or the Company’s Directors?</td><td>No</td><td>Yes</td></tr><tr><td>3. Does the Accountant have close business relationship and potential employment relationship with the Company?</td><td>No</td><td>Yes</td></tr><tr><td>4. Did the Accountant and its audit team member currently or use to serve in the Company as a director, manager or other position having major influence on the audit work during the past 2 years?</td><td>No</td><td>Yes</td></tr><tr><td>5. Did the Accountant provide the Company with non-audit service item that may directly affect audit the work?</td><td>No</td><td>Yes</td></tr><tr><td>7. Did the Accountant ever serve as the Company’s defender or represent the Company in coordinating conflicts with other third parties?</td><td>No</td><td>Yes</td></tr><tr><td>8. Is the Accountant related in kinship or marriage with the Company’s Director, manager or other person having major influence on the audit work?</td><td>No</td><td>Yes</td></tr></table>	assessment items	assessment results	independence	1. Does the Accountant has direct or major indirect financial interests with the Company?	No	Yes	2. Does the Accountant have financing or guarantee behaviors with the Company or the Company’s Directors?	No	Yes	3. Does the Accountant have close business relationship and potential employment relationship with the Company?	No	Yes	4. Did the Accountant and its audit team member currently or use to serve in the Company as a director, manager or other position having major influence on the audit work during the past 2 years?	No	Yes	5. Did the Accountant provide the Company with non-audit service item that may directly affect audit the work?	No	Yes	7. Did the Accountant ever serve as the Company’s defender or represent the Company in coordinating conflicts with other third parties?	No	Yes	8. Is the Accountant related in kinship or marriage with the Company’s Director, manager or other person having major influence on the audit work?	No	Yes	N/A
assessment items	assessment results	independence																										
1. Does the Accountant has direct or major indirect financial interests with the Company?	No	Yes																										
2. Does the Accountant have financing or guarantee behaviors with the Company or the Company’s Directors?	No	Yes																										
3. Does the Accountant have close business relationship and potential employment relationship with the Company?	No	Yes																										
4. Did the Accountant and its audit team member currently or use to serve in the Company as a director, manager or other position having major influence on the audit work during the past 2 years?	No	Yes																										
5. Did the Accountant provide the Company with non-audit service item that may directly affect audit the work?	No	Yes																										
7. Did the Accountant ever serve as the Company’s defender or represent the Company in coordinating conflicts with other third parties?	No	Yes																										
8. Is the Accountant related in kinship or marriage with the Company’s Director, manager or other person having major influence on the audit work?	No	Yes																										
4. Did the TWSE/GTSM listed companies arrange adequate Corporate Governance personnel and assign Corporate	V		The Company has not appointed a Corporate Governance Senior officer, but assigned the Finance Division, Administration Division, Intellectual Property Rights & Legal	N/A																								

Assessment items	Operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations	
Governance supervisor to be responsible for corporate governance related affairs (including but not limited to providing information required by the Directors and/or Supervisors to execute the business, assist directors and supervisors to comply with laws and regulations, processing the Board meeting and shareholders’ meeting related matters pursuant to laws and regulation, generating minutes of the Board meetings and shareholders’ meetings, etc.)?			Department and Auditor Committee to jointly take charge of corporate governance related operations: 1. To study and plan appropriate company system and organizational structure to promote the independence of the Board of Directors, transparency of the Company, compliance with the laws and regulations, and implementation of the internal control of internal audit. 2. To prepare the agenda before the Board meeting and notify all Directors to attend and provide sufficient meeting materials at least 7 days before the meeting to facilitate the Directors in understanding the contents of the related topics; the interested parties shall be reminded should the contents of the issues call for their avoidance of conflict of interests. 3. Register the date of the shareholders' meeting within the deadline on yearly basis pursuant to laws and regulations, generate and file the meeting notification, meeting handbook and minutes within the deadline, and register after the amendment on Article of Association or re-election of the Directors.	
5. Did the Company establish communication channel with interested parties (including but not limited to shareholders, employees, customers and suppliers), set up an Interested Parties Zone on the Company’s website, and duly respond to important corporate social responsibility issues concerned by the interested parties?	V		The Company’s website has set up an Interested Parties Zone and public e-mail to safeguard the communication channel of the interested parties.	N/A
6. Did the Company appoint professional service agency to process affairs of the shareholders’ meeting?	V		The Company has entrusted professional stock agent Masterlink Securities to handle the shareholders’ meeting related affairs.	N/A
7. Information disclosure (1) Did the Company set up a website to disclose information concerning financial operations and corporate governance? (2) Did the Company adopt other means of disclosing information (such as setting up an English website, assigning someone to take charge of the collection and disclosure of the Company’s information, implementing the Spokesperson system, posting Corporate Conference process on the Company’s website)? (3) Does the Company declare and file annual financial report within two months after the end of the fiscal year, and declare and file the financial reports and monthly operating status for the first, second, and third quarter within the required deadline?	V V	 V	The Company has set up external website (URL http://www.emc.com.tw) to disclose financial operations information and corporate governance information. Currently, the Company has a dedicated website and dedicated Spokesperson. The video/audio files and newsletter of Corporate Conference will also be posted on the Company’s website for public references. The Company does not declare and file annual financial report within two months after the end of the fiscal year due to excessive information and Lunar New Year holiday usually fall within the annual financial report preparation period, but the financial reports and monthly operating status for the first, second, and third quarter are all declared and filed before the required deadline.	N/A N/A Assess the operation and manpower required for earlier declaration and filing of annual financial report within two months after the end of

Assessment items	Operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor																																
	Yes	No	Brief explanations																																	
				the fiscal year.																																
8. Does the Company possess other important information (including but not limited to employee rights, employee care, investor relations, supplier relations, rights of the interested parties, trainings of the Directors and Supervisors, execution status of risks manage policies and risks measurement standards, execution status of customer policies, liability insurance purchased by the Company for the Directors and Supervisors, etc.) that can help in understanding the corporate governance operating status?	V		<div>1. In addition to common benefit such as health insurance, social security, group insurance and pension, employees of the Company also enjoy benefits provided by the Company such as bonuses for the year, employee compensation, regular health checkups, established medical room to care for employees’ health, employees travel allowances and club activities.</div> <div>2. The Company has set up Spokesperson, Acting Spokesperson, investment contact person and public e-mail as communication channels between the Company and the investors. The Company’s external website (URL http://www.emc.com.tw) also has set up an Interested Parties Zone to present various aspects concerned by the interested parties and related means of communication and response.</div> <div>3. Training status of the Directors and Supervisors:</div> <table><thead><tr><th>Job title</th><th>Name</th><th>Date</th><th>Organizer</th><th>Name of the course</th><th>Number of hours</th></tr></thead><tbody><tr><td rowspan="2">Chairman</td><td rowspan="2">YEH, I-HAU</td><td>April 2019</td><td>Securities and Futures Institute</td><td>Advanced seminars on practices of the directors and supervisors (including independent director and supervisor) – laws governing corporate governance and securities</td><td>3</td></tr><tr><td>March 2019</td><td>Securities and Futures Institute</td><td>Advanced seminars on practices of the directors and supervisors – Discussion from business secrets related cases to corporate governance</td><td>3</td></tr><tr><td rowspan="2">Director</td><td rowspan="2">YEN, KUO-LUNG</td><td>April 2019</td><td>Securities and Futures Institute</td><td>Advanced seminars on practices of the directors and supervisors (including independent director and supervisor) - laws governing corporate governance and securities</td><td>3</td></tr><tr><td>May 2019</td><td>Securities and Futures Institute</td><td>2019 Annual advocacy conference on anti-insider trading</td><td>3</td></tr><tr><td>Director</td><td>CHIU, TE-CHEN</td><td>April 2019</td><td>Taiwan Academy of Banking and Finance</td><td>Workshop on Corporate Governance and business continuity, Session 7</td><td>3</td></tr></tbody></table>	Job title	Name	Date	Organizer	Name of the course	Number of hours	Chairman	YEH, I-HAU	April 2019	Securities and Futures Institute	Advanced seminars on practices of the directors and supervisors (including independent director and supervisor) – laws governing corporate governance and securities	3	March 2019	Securities and Futures Institute	Advanced seminars on practices of the directors and supervisors – Discussion from business secrets related cases to corporate governance	3	Director	YEN, KUO-LUNG	April 2019	Securities and Futures Institute	Advanced seminars on practices of the directors and supervisors (including independent director and supervisor) - laws governing corporate governance and securities	3	May 2019	Securities and Futures Institute	2019 Annual advocacy conference on anti-insider trading	3	Director	CHIU, TE-CHEN	April 2019	Taiwan Academy of Banking and Finance	Workshop on Corporate Governance and business continuity, Session 7	3	N/A
Job title	Name	Date	Organizer	Name of the course	Number of hours																															
Chairman	YEH, I-HAU	April 2019	Securities and Futures Institute	Advanced seminars on practices of the directors and supervisors (including independent director and supervisor) – laws governing corporate governance and securities	3																															
		March 2019	Securities and Futures Institute	Advanced seminars on practices of the directors and supervisors – Discussion from business secrets related cases to corporate governance	3																															
Director	YEN, KUO-LUNG	April 2019	Securities and Futures Institute	Advanced seminars on practices of the directors and supervisors (including independent director and supervisor) - laws governing corporate governance and securities	3																															
		May 2019	Securities and Futures Institute	2019 Annual advocacy conference on anti-insider trading	3																															
Director	CHIU, TE-CHEN	April 2019	Taiwan Academy of Banking and Finance	Workshop on Corporate Governance and business continuity, Session 7	3																															

Assessment items	Operating status (Note)							Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor	
	Yes	No	Brief explanations						
			juridical person director	WEA, CHI-LIN	July 2019	Securities and Futures Institute	Advocacy briefing on compliance with laws governing equity transactions of listed company’s internal members	3	
					August 2019	Securities and Futures Institute	Topic: Directors' duties and legal responsibilities & money laundering prevention	3	
					December 2019	Securities and Futures Institute	Directors and supervisors’ duties in mergers and acquisitions	3	
			Independent Director	LIN, HSIEN-MING	September 2019	Taiwan Corporate Governance Association	Corporate social responsibility and sustainable competitiveness	3	
					September 2019	Taiwan Corporate Governance Association	How directors and supervisors guide the Company toward good enterprise risk management	3	
			Independent Director	CHUNG, RONG-DAR	April 2019	Securities and Futures Institute	Advanced seminars on practices of the directors and supervisors (including independent director and supervisor) - laws governing corporate governance and securities	3	
					July 2019	Taiwan Corporate Governance Association	“Board effectiveness and remuneration” seminar	3	
			Independent Director	CHEN, HOMIN	September 2019	Taiwan Corporate Governance Association	Laws governing corporate governance and securities	3	
						Taiwan Corporate Governance Association	Trend and challenges in information security governance	3	

Assessment items	Operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations	
			<p>4. If the Board meeting convened by the Company involves personal interests of the Director(s) which are potentially damaging to the Company’s interests, the Director(s) shall uphold self-discipline to avoid the participation in voting or represent other Director(s) in exercising voting power.</p> <p>5. The Company has purchased NT\$160,000,000 liability insurance for the Directors and managers, of which the related underwriting period and premiums has been reported in the Board meeting on August 9, 2019.</p>	
<p>9. Please state the status of improvement for issues identified in the corporate governance evaluation results issued by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the last fiscal year and propose priority enhancements and measures for those that have not yet improved. (This is not applicable for the companies not listed as a rated company: The issues identified in the Company’s 2019 corporate governance evaluation results that have been improved: Establishment of information security risk management framework, formulation of information security policies and specific management plans, and disclosure thereof on the Company's website. Priority enhancement in the future: The Chinese version interim financial statements will be disclosed in English version on Market Observation Post System within 2 months after the filing period of the interim financial statements. Were the financial statements authorized by or submitted to the Board of Directors 7 days prior to the filing period thereof and disclosed 1 day after the financial statements was authorized or submitted.</p>				

Note: Explanations shall be specified in the “brief explanations” field regardless whether “Yes” or “No” was selected for the operating status.

(5) Information about members of the Remuneration Committee

Job title (Note 1)	Qualification	Does he/she have more than 5yrs of work experience and the following professional qualifications?			Degree of independence (Note 2)										Number of independent directors serving concurrently as independent director of other public companies	Remarks
		Public and private universities lecturer (or above) in business, legal, financial, accounting or other fields related to the business of the Company	Judge, prosecutor, lawyer, accountants or other certified professionals and technicians in the fields related to the business of the Company	Work experience in business, legal, financial, accounting or fields related to the business of the Company	1	2	3	4	5	6	7	8	9	10		
Independent Director	CHEN, HOMIN	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	We, based on professional and objective position, evaluated directors' and managers' remuneration policies and systems of the Company and made recommendations to the Board of Directors as decision-making reference.
Independent Director	LIN, HSIEN-MING			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	CHUNG, RONG-DAR			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1: Please fill in the job title as "Director", "Independent Director" or "other".

Note 2: For each director who meets the following conditions during the past two years prior to his/her appointment and during his/her term, please mark "☑" in the cell under that number.

- (1) Not an employee of the Company or its affiliates;
- (2) Not a director or supervisor of the Company or its affiliates. However, this does not apply to the Independent Director established pursuant to the Act or local law of the Company or its parent company and/or subsidiary);
- (3) Not a person, or his/her spouse, or his/her children under 20 years of age, or in the name of others, who holds more than 1 percent of the Company's total shares issued or a top 10 natural person shareholder;
- (4) Not manager listed in (1) or spouse, relative by blood or marriage within second degree of kinship or relationship or a relative by blood within third degree of kinship of those listed in (2), (3) ;
- (5) Not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the Company' s total shares issued, nor a director, supervisor or employee of top five shareholders, nor a director, supervisor or employee of a corporate shareholder who is appointed to act as corporate director or supervisor pursuant to Article 27 paragraphs 1 or 2 of the Company Act (however, this does not apply to the independent directors established and inter-concurrently served between the Company and its parent company, subsidiaries or a subsidiaries under the same parent company pursuant to the Company Act or local national laws and regulations).
- (6) Not a director, supervisor or employee of other company which is controlled by the same person who holds more than half of the director seats or voting rights of the Company (however, this does not apply to the independent directors established and inter-concurrently served between the Company and its parent company, subsidiaries or a subsidiaries under the same parent company pursuant to the Company Act or local national laws and regulations).
- (7) Not another company or organization' s director (council), supervisor or employee who is also the Company's chairman, president (or equivalent) or the spouse thereof (however, this does not apply to the independent directors established and inter-concurrently served between the Company and its parent company, subsidiaries or a subsidiaries under the same parent company pursuant to the Company Act or local national laws and regulations).
- (8) Not a director, supervisor or employee of a specific company or organization which directly holds more than 5% of the Company' s total shares issued, nor a director, supervisor or employee of a top 5 corporate shareholder (however, this does not apply to specific company or organization holding 20% (inclusive) ~ 50% of the Company' s total issued shares and independent directors were established and inter-concurrently served between the Company and its parent company, subsidiaries or a subsidiaries under the same parent company pursuant to the Company Act or local national laws and regulations).
- (9) Not a professional providing audit or business, legal, financial, and accounting services or consultation to the Company or its affiliates with cumulative remuneration of less than NT\$500,000 in the past two years; not an owner, partner, directors (council), supervisor, manager or his/her spouse of a sole proprietorships, partnership, company or institution (however, this does not apply to member of the Remuneration Committee, Public Tender Offers Review Committee or Special Committees for Merger / Consolidation and Acquisition pursuant to the Securities and Exchange Act or the Business Mergers And Acquisitions Act).
- (10) Not having any one of the circumstances as identified in Article 30 of the Company Act.

(6) Operating status of the Remuneration Committee

1. The Company has a total of 3 Remuneration Committee members.
2. Term of the members of the 4th Committee: CHEN, HOMIN、LIN, HSIEN-MING, June 11, 2018 to June 10, 2021; CHUNG, RONG-DAR, November 8, 2018 to June 10, 2021. The Remuneration Committee has held 3 meetings (A) during the last fiscal year. The member eligibility and attendance status are as follows:

Job title	Name	Actual number of times of attendance [B]	Number of times attended by a proxy	Actual attendance rate (%) [B/A] (Note)	Remarks
Convener	CHEN, HOMIN	3	0	100%	
Member	LIN, HSIEN-MING	2	1	67%	
Member	CHUNG, RONG-DAR	3	3	100%	

The dates, sessions, motions and resolutions of the Remuneration Committee's meetings during the most recent year, and the Company's actions towards the Remuneration Committee's opinions:

Remuneration Committee	content of the motions and its follow-up actions	resolution	The Company's method of handling opinions of the Remuneration Committee
The Fourth Session No. 3 March 12, 2019	1. Director and manager's remuneration planner 2. Payment of manager's 2018 performance bonus 3. Payment of 2018 employee's compensation and directors' remuneration	All members of the Committee have agreed to authorize.	Submit to the Board meeting to be authorized upon consent of all the attending directors.
The Fourth Session No. 4 August 13, 2019	1. Payment of 2018 directors' remuneration 2. Managers' salary adjustment 3. Payment of managers' 2019 incentives	all members of the Committee have agreed to authorize.	Submit to the Board meeting to be authorized upon consent of all the attending directors.
The Fourth Session No. 5 November 8, 2019	Payment of 2018 managers' remuneration	all members of the Committee have agreed to authorize.	Submit to the Board meeting to be authorized upon consent of all the attending directors.

Other items to be noted:

1. In the event of where the Board of Directors did not approve or correct the Remuneration Committee's propose, the date, session number, agenda of the Board meeting, the Board resolution and how the Company process the Remuneration Committee's resolution shall be specified (if the remuneration authorized by the Board of Directors is better than that of proposed by the Remuneration Committee, please specify the differences and reason therefor): N/A.
2. In the event of where the Remuneration Committee's resolutions opposed or given qualified opinion by its member(s) with record(s) or written statement(s), the date, session number, agenda of the Remuneration Committee meeting, opinions of all members and how the members' opinions were processed: N/A.

Note:

- (1) If a Remuneration Committee member left his/her position before the end of the year, the date he/she left the position shall be specified in the "remarks" field and the actual attendance rate (%) shall be calculated based on the number of Remuneration Committee meetings and his/her actual number of times of attendance during his/her term.
- (2) If there is a Remuneration Committee member re-election before the end of the year, the information of both previous and new Remuneration Committee members shall be filled in the "remarks" field specifying who is the previous Remuneration Committee member, who is the new or re-elected Remuneration Committee member and the re-election date; and the actual attendance rate (%) shall be calculated based on the number of Remuneration Committee meetings and his/her actual number of times of attendance during his/her term.

(7) Differences between performing social responsibility and the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons thereof:

Assessment items	Operating status (Note 1)			Differentiation from the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons therefor
	Yes	No	Brief explanations (Note 2)	
1. Did the Company conduct risk assessments on corporate operation related environmental, social and corporate governance issues and formulate relevant risk management policies or strategies based on materiality principle? (Note 3)	Yes		As operating risks continue to rise globally, ELAN Microelectronics has formulated "Risk Management Procedures" to conduct risk assessments on corporate operation related environmental, social and corporate governance issues and formulate relevant risk management policies or strategies based on materiality principle on yearly basis. The risk management and processes are implemented via the "risk assessment form system" and integrates into daily operations and decision-making operations to reduce the possibility and consequences of damage and ensure the achievement of operational goals and performance.	No differences
2. Did the Company establish dedicated unit to promote corporate social responsibility, which is authorized to the top management level by the Board of Directors to take charge and report the status to the Board of Directors?	Yes		The Industry Performance Management Department is a part-time unit which promotes corporate social responsibility and has reported the implementation status of the year to the Board of Directors on December 20, 2019.	No differences
3. Environmental issues: (1) Did the Company establish suitable environmental management system according to the nature of its industry? (2) Did the Company commit to improving the efficiency in the utilization of various resources and use recycled materials that have a low impact on the environment? (3) Did the Company assess the potential current and future risks and opportunities of climate change on the Company, and take countermeasures to address such climate-related issues? (4) Did the Company calculated its greenhouse gas emissions, water consumption and total weight of waste in the past two years and formulate policies for energy conservation, carbon reduction, greenhouse gas reduction, water consumption reduction or other waste management?	Yes Yes Yes Yes		(1) "Green Product" is the most basic requirement of ELAN Microelectronics. ELAN's full range of products are all in compliance with RoHS, Sony GP, REACH, and halogen-free requirements, of which the customers are provided with Certificate of Non-Use of Hazardous Substances. (2) The Company has passed the ISO-14001:2015 Environmental Quality Management certification. (3) The Corporate Social Responsibility Report was introduced in 2014. (4) In 2014, inspection on greenhouse gases was commenced, and an minimum 1% annual energy conservation and carbon reduction KPI was set.	No differences
4. Social issues: (1) Did the Company formulate management policies and procedures in accordance with relevant laws and regulations and international Human Rights Treaties? (2) Did the Company formulate and implement reasonable employee welfare measures (including compensation, vacations and other benefits), and adequately reflect operating	Yes Yes		(1) In addition to the Work Rules are in compliance with the relevant laws and regulations, the Company has also adopted the "Human Rights Policy" upon Board resolution to safeguard basic human rights of the employees, to shape protect the environment with full human rights protection, and to recognize and support UN's "Universal Declaration of Human Rights", "The United Nations Global Compact" and other internationally recognized basic human rights, while requiring cooperative manufacturers to prevent any violation of human rights in operate	No differences

Assessment items	Operating status (Note 1)			Differentiation from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations (Note 2)	
<p>performance or results in employee compensation?</p> <p>(3) Did the Company provide employees with a safe and healthy work environment and regular safety and health education?</p> <p>(4) Did the Company establish effective training programs to develop career ability for the employees?</p> <p>(5) Did the Company comply with relevant regulations and international standards and formulate relevant policies and complaint procedures for customer health and safety, customer privacy, marketing and labeling of products and services in order to protect consumer rights?</p> <p>(6) Did the Company formulate supplier management policies that require suppliers to comply with relevant regulations on environmental protection, occupational safety and health or labor human rights? What’s the status of implementation thereof?</p>	Yes		<p>activities, treating internal and external staff members with dignity and respect, and abide by the local labor related laws and regulations of the company.</p> <p>(2) The Company has formulated Work Rules and related personnel management regulations covering basic wage, working hours, vacations, pension payments, labor and health insurance payments, and occupational disaster compensation of/for the Company’s employees, which all comply with the relevant provisions of the Labor Standards Act. Establishment of Employee Welfare Committee to handle various welfare matters: The Company’s remuneration policy is based on individual capacity, level of contribution to the Company, performance, and positive relevance to the operating performance.</p> <p>(3) The Company began promoting the latest occupational safety and health management system ISO 45001 in 2018 and obtained the certification in 2019. The Company had won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award” for the 15th consecutive year providing employees with a healthy, comfortable and safe working environment, while regularly implementing safety and health education and training and health promotion activities in accordance with relevant laws and regulations</p> <p>(4) The Company has created a good environment and established an effective career ability development training program for the career development of it employees.</p> <p>(5) The marketing and labeling of the Company’s products and services all complied with “ISO 9001 Quality Management System”, “ISO 14001 Environmental Management System” international standards, as well as laws and regulations.</p> <p>(6) The Company formulated Customer Service Procedures and established customer service website to protect the rights and interests of customers.</p> <p>(7) Relevant issues are regulated in ISO9001, ISO14001 and ISO45001 certifications; investigate the implementation status during annual audit by the [Field Review Form for Outsourced Vendors] and request the suppliers to update relevant certificates.</p>	
5. Did the Company refer to internationally accepted report preparation standards or guidelines to prepare corporate social responsibility reports and other reports that disclose the Company's non-financial information? Did the aforementioned reports obtained confirmation or assurance opinions from third-party verification unit?	Yes		The Company’s “2018 Corporate Social Responsibility Report” was verified by British Standards Institution (BSI) according to GRI Standards G4 Core Option’s AA1000 Accountability Assurance Standard, AA1000AS principle and, due to the nature and regionality of the industry, the Responsible Business Alliance (RBA), Taiwan’s “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” were also referenced for social responsibility behaviors specifications. The report is annexed with BSI statement.	No differences
6. If the Company has its own code of corporate social responsibility based on the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”, please state the difference between its operation and the code thereof: No difference, because the “ELAN Microelectronics’ Corporate Social Responsibility Management System and Promotion Plan” are all in compliance with the “Corporate Social Responsibility Best				

Assessment items	Operating status (Note 1)			Differentiation from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations (Note 2)	
Practice Principles for TWSE/GTSM Listed Companies”.				
7. Other important information that may facilitate the understanding about the status of the Company’s social responsibility operation: In order to implement the disclosure of corporate social responsibility information, the Company has officially issued “2018 Corporate Social Responsibility Report” in Traditional and Simplified Chinese and English versions and disclosed on the Company's external website and Market Observation Post System. In addition, the abstracts of various social activities of which the Company had participated are as follows: Caring for the disadvantaged groups - elderly living alone Since 2010, Elan has cooperated with the Catholic Social Service Center for nine consecutive years and jointly held cherish fair on the eve of the Mid-Autumn Festival. In response to the event, the Company set up charity sell booth and took the initiative to purchase tickets of fair; the Company's staff members volunteered to support the charity sale on the same day. The proceeds from the charity sale was then all donated to Hsinchu Social Service Center for the care of the vulnerable elderly and the purchase of transportation, hoping that through the charity sale activities, the elderlies who are poor, living alone and disabled will be able to enjoy a beautiful Mid-Autumn Festival. In 2018, the donation amount was about NT\$140,000, and there were 16 volunteers from the Company participated in the activity. Another elderly caring activity is to respond to the “Care for the Elderly” activity of the Genesis Social Welfare Foundation. ELAN Microelectronics has donated a total of NT\$92,000 to the foundation for social services mainly aim to benefit PVS patients, elderlies, and poor people. Caring for the disadvantaged - vulnerable children In response to the "Lighting the Dream" activity of Hui Ming School in Taichung on the eve of Christmas in 2019, Elan Group’s employees agreed with Hui Ming School's concept of accommodating students with multiple disabilities and successfully reached the goal in just three days by actual donation to realize the concept of social citizenship and care for this group of less fortunate children. The activity donated a total of NT\$140,000; in addition to give all 257 students in the school a gift, the excess fund was transferred to Hui Ming School Affairs Fund, so that the entire school can invest more resources on the care and education of children with multiple disabilities. Supporting Talent and Intern Programs – College Students Elan is a professional IC design company; cultivating talents is the most direct and effective way to give back to the society. Starting from campuses, Elan provides internship quota to the school, which creates a mutually beneficial win-win situation between Elan and the school. There is no doubt that internship is where the corporation and school connect together and one of the most effective and easiest ways to develop talents in an early stage. Through the provision of workplace internship opportunities to the students, the internships and work content are arranged in a planned manner. Under the leadership and subtle influence of the seniors, the interns are able to practice the practical ability of the workplace and cultivate correct working attitudes. The enterprise can also assess the development potential of interns during the process, which can reduce pre-employment training costs and reserve future talent. Such internship program is planned in advance by Elan and the school to conduct business internships through "semester" or "full academic year" approach arrangements, setting a system with specific job descriptions and achievable tasks, so that students can enter the workplace early to broaden knowledge and practice what they have learned, as well as to inject new vitality and creativity into the organization of Elan and to use this opportunity to explore suitable talents and keep excellent internships as new force of the Company. For the students, it is possible to understand workplace and employment environment early, to strengthen own skills, and to make the right career choices. By the end of 2019, 61 job vacancies have been provided to college students and postgraduate internships. Cultivate AI talents - AI industry talents In order to enhance Taiwan's industrial competitiveness, ELAN Electronics and its affiliates jointly promoted “Taiwan AI Academy”, hoping to use this school as a platform to promote accurate understanding and latest technology of artificial intelligence, to foster AI talent pool for industrial, government, academic and research circles, while referring to the industrial-academic demand and supply, allowing Taiwan to occupy a place in the rapid development of global artificial intelligence and information science and technology. The establishment of AI Academy can help the industry to				

Assessment items	Operating status (Note 1)			Differentiation from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations (Note 2)	
solve the big challenge of industrial AI: to make up for the lack of practical talents, to narrow the industrial-academic gap, and to gradually establish Taiwan's independent technology as a contribution to Taiwan's technology ecosystem. In 2018~2019, more than NT\$20,950,000 has been donated and is expected to reach the goal of donating NT\$30,000,000 within three years.				

Note 1: If “Yes” was selected for the operating status, please explain the major policies, strategies and measures adopted and the implementation thereof; if “No” was selected for the operating status, please explain the reasons and describe the policies, strategies and measures to be adopted in the future.

Note 2: If the Company has prepared the Corporate Social Responsibility Report, “see page ____ of the Corporate Social Responsibility Report” can be noted in lieu of brief explanations.

Note 3: The materiality principle refers to those environmental, social and corporate governance issues that have significant impact on the Company's investors and other interested parties.

(8) Differences between performing ethical management and the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the reasons thereof:

Assessment items	Operating status (Note 1)			Differentiation from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations	
<p>1. Set ethical operation policies and plans</p> <p>(1) Did the Company set ethical operation policies authorized by the Board of Directors and specify the ethical operating policies and practices and the commitment of the Board of Directors and management level to actively implement operating policies practices in Articles of Association and external documents?</p> <p>(2) Did the Company establish assessment mechanism for risk of unethical conducts, regularly analyze and evaluate business activities with high risk of unethical conducts within the scope of business, and formulates an unethical conducts prevention plan to at least covers the preventive measures for behaviors identified in Paragraph 2, Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”?</p> <p>(3) Did the Company set unethical conducts prevention plan, stipulate operating procedures, code of conduct, punishment for violation and complaint filing system in various plans, implement accordingly and regularly review and revise the plan thereof?</p>	Yes		<p>(1) The Company has set “Ethical Corporate Management Best Practice Principles” and “Ethical Corporate Management Best Practice Procedures and Code of Conduct”, which were authorized by the Board of Directors; the management level actively implemented the ethical operating policies based on fair, honest, trustworthy and transparent principles of engaging operating activities.</p> <p>(2) The Company has set operating procedures, code of conduct, punishment for violation and complaint filing system in various plans in accordance to “Ethical Corporate Management Best Practice Principles”, “Ethical Corporate Management Best Practice Procedures and Code of Conduct” and “allegation reporting system” and implement accordingly.</p> <p>(3) The Company has set “Ethical Corporate Management Best Practice Principles” and “Ethical Corporate Management Best Practice Procedures and Code of Conduct” to prevent operating activities with higher risks of unethical conduct within its scope of business.</p>	No differences
<p>2. Implementation of ethical operation</p> <p>(1) Did the Company evaluate ethical records of the counterparties, and specify provision of ethical conduct in the contract it entered into with its transaction counterparties?</p> <p>(2) Did the Company establish dedicated unit under the Board of Directors to promote corporate ethical operation and regularly (at least once a year) report the status of its implementation of ethical operation policies and unethical conducts prevention plan and supervisory to the Board of Directors?</p> <p>(3) Did the Company formulate, provide and implement policies to prevent conflict of interests and suitable channel to express opinion / statement?</p> <p>(4) Did the Company establish effective accounting system and internal control system and have the internal audit unit formulating relevant audit plan based on the results of assessment on risk of unethical conduct, while examining the compliance with the unethical conduct</p>	Yes Yes Yes Yes		<p>(1) The Company fully understood counterparties’ ethical operating conditions when entering into contract with others, and specified in the contract that the contract may be unconditionally terminated or rescind if the operating activities involve unethical conduct.</p> <p>(2) The Company has assigned the President’s Office as the dedicated unit to promote corporate ethical operation, of which would report any event of unethical conduct, the means of handling thereof and subsequent review & improvement measures to the Board of Directors, and report the status of implementing the ethical operations for the year to the Board of Directors regularly on yearly basis.</p> <p>(3) In the event when Company’s staff member performed the Company’s business found that there is a conflict with the interests of his/her own or the juristic person it represents, or may result in the obtaining of unproperty interests by him/herself or him/herself spouse, parent(s), children or interested parties, he/she shall report the matter to his/her direct superior and the Company’s dedicated unit, and the direct superior shall provide adequate</p>	No differences

Assessment items	Operating status (Note 1)			Differentiation from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations	
prevention plan (or commissioning an accountant to perform the examination)? (5) Did the Company regularly hold internal and/or external training on ethical operation?	Yes		guidance. (4) The Company has established effectively accounting system and internal control system; external accounts or secret account(s) are prohibited, and review were conducted to ensure that the design and implementation of the system continues to be effective. The internal audit unit regularly check compliance of the relevant systems according to the audit plan. (5) Since 2018, newcomers’ on-the-job training has included anti-corruption digital courses, the relevant training and online tests of which are subject to be completed 100% and updated regularly thereafter. In 2019, the Company held internal and external education and trainings on ethical operations (including courses on compliance with ethical operations regulations, accounting systems, internal control systems and other relevant courses) with a total of 606 man-count and 44,255 man-hours.	
3. Operating status of the Company’s allegation reporting system (1) Did the Company set specific reporting allegations and reward system, establish convenient reporting allegations channel, and assign appropriate dedicated personnel to process the allegations? (2) Did the Company set standards operating procedures, post-investigation measures and related confidentiality mechanisms to be taken to process allegations? (3) Did the Company adopt measures to protect those who reported allegations from improper treatment due to the allegations?	Yes Yes Yes		(1) The Company has set specific reporting allegations and reward system, of which the employee may report to the Supervisors, managers, internal audit unit or other appropriate personnel when violation of laws and regulations or Ethical Code of Conduct is suspected or found. (2) The Company’s website is equipped with a “Complaint Mailbox” and “Employee Complaint Measures” for employees and outsiders to report anonymously, and the head of the Industry Performance Management Department was appointed as the responsible person therefor. The Company has set standards operating procedures and related confidentiality mechanisms. The Intellectual Property Rights & Legal Department was established as the dedicated unit for processing business secrets, responsible for formulating and implementing the Company’s business secrets management, storage and safeguarding procedures to ensure continued effectiveness of the operating procedures. (3) The Company will do its best to protect safety of who reported allegations from improper treatment due to the allegations.	No differences
4. Strengthen information disclosure Did the Company disclose its set Ethical Corporate Management Best Practice Principles contents and effectiveness in promotion on its website and Market Observation Post System?	Yes		The Company has disclosed its “Ethical Corporate Management Best Practice Principles” and “Ethical Corporate Management Best Practice Procedures and Code of Conduct” on its website and the Market Observation Post System, and disclose status of the implementation of ethical operations under “corporate governance” section of the Company’s website.	No differences
5. Where the Company has formulated its own Ethical Corporate Management Best Practice Principles based on the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”, please specify the differences between the two: No differences				
6. Other important information that may facilitate the understanding about the status of the Company’s ethical operation: (such as: the Company’s review and revise its own Ethical Corporate Management Best Practice Principles)				

Assessment items	Operating status (Note 1)			Differentiation from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	Brief explanations	
As of the end of 2019, the Company did not incur any case of corruption, violation of business ethics and trust; the Company also introduced ISO 37001 anti-bribery management system, the certification of which will be completed by July 2020.				

Note 1: Explanations shall be specified in the “brief explanations” field regardless whether Yes or No was selected for the operating status.

- (9) If the Company has set corporate governance code and related regulations, it shall disclose the enquiry methods: The Company's "Code of Corporate Governance" and related regulations have been disclosed on the Company's website and Market Observation Post System. For enquiries, please refer to our URL (<http://www.emc.com.tw>) or Market Observation Post System (<http://mops.twse.com.tw>).
- (10) Other important information that may facilitate the understanding about the implementation status of the corporate governance operation shall also be disclosed: There are regulation concerning corporate governance under "Code of Corporate Governance" in the Company's external webpage.
- (11) Disclosure about the implementation of internal control system shall include the following items:
1. Statement on Internal Control: (please see page 264)
 2. Where there is ad hoc audit on internal control system by outsourced accountant(s), the Accountant's audit report shall be disclosed: N/A.
- (12) Where, during the last fiscal year and as of the publishing date of the annual report, the Company and its staff members were sanctioned by law and/or the Company applied punitive measures on its staff members who violated provisions of the internal control system, if the result of the punishment may have a significant impact on shareholders' equity or the price of securities, the content of the punishment, the major deficiencies and improvement thereof shall be specified: N/A.
- (13) Important resolution adopted by shareholders' meeting and the Board meeting during the last fiscal year and until the publishing date of the annual report:

resolution adopted by shareholders' meeting and the implementation:

Meeting date	Meeting	Important resolutions adopted by a the shareholders' meeting	Implementation status
June 10, 2019	2019 Annual General Meeting of Shareholders	Acknowledgement:	
		(1) Acknowledge the amendments to the 2017 annual profit distribution, and correct the 2017 over contributed statutory surplus reserve and the under-accrued 2017 undistributed earnings	Proceed as per resolutions.
		(2) Authorize and acknowledge 2018 Business Report and financial statements	Proceed as per resolutions.
		(3) Authorize and acknowledge 2018 profit distribution proposal	Set August 17, 2019 as the reference date of the distribution of rights, and August 28, 2019 as the cash dividends pay day (cash dividend distributed per share was NT\$4.65).
		Discussions:	
		(1) To authorize capital surplus distribution by cash;	Set August 17, 2019 as the reference date of the distribution of rights, and August 28, 2019 as the cash dividends pay day (cash dividend distributed per share was NT\$0.35)
		(2) To approve the amendment on Articles of Association	Obtained Hsinchu Science Park Bureau's approval to register on June 13, 2019 and announced on the Company's website.
		(3) To amend the procedures concerning the acquisition or disposal of assets	Proceed as per resolutions.
		Election:	
		Re-elect an independent director and elected: CHUNG, RONG-DAR	Obtained Hsinchu Science Park Bureau's approval to register on June 13, 2019.
		Other motions: to authorize the lifting the directors' non-competition restrictions	Proceed as per resolutions.

The Board resolutions:

Meeting date	Nature of the meeting	Important resolution adopted by a the shareholders' meeting
March 12, 2019	Board meeting	<ol style="list-style-type: none"> 1. Remuneration Committee's proposal: Director and manager's remuneration planner 2. Remuneration Committee's proposal: Payment of manager's performance bonus 3. Remuneration Committee's proposal: Discussion about the distribution of employee compensation and Directors' remuneration; 4. Discussion on amending the Articles of Association; 5. Amendment on procedures of acquisition or disposal of assets; 6. Discussion about the Company's 2018 self-closing financial statements and consolidated financial statements; 7. Discussion about the Company's profit distribution for the year 2018; 8. Discussion about the Company's capital surplus distribution; 9. Re-elect an independent director 10. Nominate and review list of independent directors candidates; 11. Lifting the directors' non-competition restrictions 12. Discussion about the date and venue for holding the Company's 2019 Annual General Meeting of Shareholders; 13. Set the period and location for receiving and processing shareholders' proposal; 14. Audit Committee's proposal: Internal control design and the Statement on Internal Control; 15. Audit Committee's proposal: Appointing Accountants of Klynveld Peat Marwick Goerdeler (KPMG) to audit and certify the Company's 2019 financial statements and tax reports.
May 9, 2019	Board meeting	<ol style="list-style-type: none"> 1. Amended "Guidelines for Endorsement". Please approve. 2. Formulated the "Standard Operating Procedures for Handling Directors' Requests". Please approve. 3. Amended the "allegation reporting system". Please approve. 4. Discuss the subscription in Metanoia Communications Inc.'s 2019 cash capital increase for resolution. Please approve.
August 13, 2019	Board meeting	<ol style="list-style-type: none"> 1. Reporting the Q2 / 2019 self-closing consolidated financial statements. 2. Report the purchase of liability insurance for the directors and managers 3. Remuneration Committee's proposal: Payment of 2018 directors' remuneration; 4. Remuneration Committee's proposal: managers' salary adjustments; 5. Remuneration Committee's proposal: Payment of managers' 2019 incentives.
November 8, 2019	Board meeting	<ol style="list-style-type: none"> 1. Reporting the Q3 / 2019 self-closing consolidated financial statements. 2. Remuneration Committee's proposal: Payment of 2018 employee compensation 3. Remuneration Committee's proposal: Director and manager's remuneration planner; 4. Subscription in Avisonic Technology Corp.'s 2019 first cash capital increase. 5. Subscription in Uniband Electronic Corporation's 2019 cash capital increase.
December 20, 2019	Board meeting	<ol style="list-style-type: none"> 1. Report on information security risk management 2. Report on the implementation of social responsibility 3. Report on the implementation of ethical operations 4. Report on the status of communicate with various related parties 5. Report on letter from the Stock Exchange concerning the enhancement of the ability of listed companies in financial statements preparation 6. Set 2020 audit plan. Please approve. 7. Subscription in Eminent Electronic Technology Co., Ltd.'s 2019 first cash capital increase. Please approve. 8. Subscription in Rising Star Ltd.'s 2019 cash capital increase. Please approve. 9. Additional subscription in Metanoia Communications Inc.'s 2019 cash capital increase. Please approve. 10. Amend the board performance evaluation method and the self-assessment questionnaire. Please approve.
March 10, 2020	Board meeting	<ol style="list-style-type: none"> 1. Report the self-assessment results on the Board's performance. 2. Report on the subscription in Metanoia Communications Inc.'s 2019 cash capital increase. 3. Report status of the invest in Vertex Fund 4. Reporting self-closing financial statements and consolidated financial statements. 5. Discussion about the Company's profit distribution for the year 2019. Please approve. 6. Remuneration Committee's proposal: Payment of 2019 managers' remuneration. Please approve. 7. Remuneration Committee's proposal: Distribution of employee compensation and Directors' remuneration. Please approve. 8. Discussion about the date and venue for holding the Company's 2020 Annual

Meeting date	Nature of the meeting	Important resolution adopted by a the shareholders' meeting
		<p>General Meeting of Shareholders. Please approve.</p> <p>9. Set the period and location for receiving and processing shareholders' proposal. Please approve.</p> <p>10. Subscription in Bruckewell Technology Corporation's 2020 first cash capital increase. Please acknowledge.</p> <p>11. The Company's 2019 internal control system has completed the self-assessment. The results of which are hereby stated the Statement on Internal Control. Please approve.</p> <p>12. Appointing Accountants of Klynveld Peat Marwick Goerdeler (KPMG) to audit and certify the Company's 2020 financial statements and tax reports. Please approve.</p>

- (12) Where there are recorded or written statements during the last fiscal year and until the publishing date of the annual report regarding the Directors or Supervisors' opposing on important Board resolution(s), its main contents are: N/A.
- (13) Summary of resignation and dismissal of financial statements related staff members (including Chairman, President, Chief Accounting Officer, Chief Financing Officer, Chief Audit Executive and Chief R & D Officer, etc.) during the last fiscal year and until the publishing date of the annual report: N/A.

4. Audit Fee Information:

Range of Audit fee (please check-mark the corresponding range or fill in the amount):

Name of the CPA firm	Name of CPA		Audit period	Remarks
Klynveld Peat Marwick Goerdeler (KPMG)	CHOU, PAO-LIEN	TSENG, MEI-YU	2019	

Note: If the Company changes its Accountant or accounting firm during the current year, please list their audit periods separately and explain the reasons for the replacement in the “remark” field.

Unit: NT\$'000

Range	Items	Auditing fees	Non-auditing fees	Total
1	less than NT\$2,000,000		V	
2	NT\$2,000,000 ~ NT\$3,999,999			
3	NT\$4,000,000 ~ NT\$5,999,999	V		V
4	NT\$6,000,000 ~ NT\$7,999,999			
5	NT\$8,000,000 ~ NT\$9,999,999			
6	NT\$10,000,000 or above			

Unit: NT\$'000

Name of the CPA firm	Name of CPA	Auditing fees	Non-auditing fees					CPA's audit period	Remarks
			System design	Business registration	HR	Other (Note 2)	Subtotal		
Klynveld Peat Marwick Goerdeler (KPMG)	CHOU, PAO-LIEN	4,950	-	-	-	196	196	2019	Offshore investment company maintenance fees, tax consultation service charges, traveling expenses
	TSENG, MEI-YU								

Note 1: If the company changes its accountant or accounting firm in the current year, please list their audit periods separately and explain the reasons for replacement in the “remark” field. Please disclose the auditing and non-auditing fees in sequence.

Note 2: Please list the non-auditing fees separately according to the service items. If the “others” non-auditing fees amount to 25% of the total non-auditing fees, its service content shall be listed in the remark field:

- (1) If the non-auditing fees for the Certified Public Accountant and his/her firm and its affiliate(s) are more than one quarter of the auditing fees: N/A.
- (2) Nature of the non-auditing fees: i.e. the offshore investment company maintenance fees, tax consultation service charges and traveling expenses.
- (3) If there is a change in accounting firm and the auditing fees in the year of such change is less than the auditing fees in the previous year: No change.
- (4) If the auditing fees was decrease by more than 10% comparing to that of in the previous year: N/A.

5. Information Regarding the Change of Accountant:

(1) Regarding the former accountant

Date of replacement	March 12, 2019		
Reason and explanation for the replacement	Due to internal organizational adjustments, the accounting firm appointed by the Company has replaced the Company's Certified Public Accountant from Accountant KAO, WEI-CHUAN and Accountant TSENG, MEI-YU to Accountant CHOU, PAO-LIEN and Accountant TSENG, MEI-YU since the first quarter of 2019.		
Explain why the principal or accountant terminated or declined the appointment	Parties		
	Situation	Accountant	Principal
	Take the initiative to terminate the appointment	N/A	
	declined the appointment		
Opinions and reasons for the issuance of other audit report other than the unqualified audit report within the past two years	N/A		
Is there any different opinion from that of the issuer	Yes		Accounting principles or practices
			Disclosure of financial statements
			The scope or steps of audit
			Other
	No	V	
	Explain		
Other disclosures (those that are subject to be disclosed pursuant to Article 10 Paragraph 6 Item 1-4 to 1-7 hereof)	No		

(2) Regarding the successor accountant

Name of the firm	Klynveld Peat Marwick Goerdeler (KPMG)
Name of the accountant	CHOU, PAO-LIEN; TSENG, MEI-YU
Date of appointment	Authorized by the Board of Directors on March 12, 2019
Matters consulted concerning the accounting treatment or accounting principles of specific transactions and opinion that may be issued for the financial statements prior to the appointment and the results thereof	No
Successor accountant's written opinion for any former accountant's opinion he/she disagreed on	No

(3) The former accountant's reply to matters identified in Article 10 Paragraph 6 item 1 and 2.3 hereof: N/A

6. **The Company's Chairman, President, chief financial officer or chief accounting officer who has worked for the CPA's firm or its affiliates during the last fiscal year:**
N/A

7. Any transfer of shareholdings and changes in equity pledge from the directors, managers and shareholder(s) holding more than 10% of the shares during the last fiscal year and until the publishing date of the annual report:

(1) Changes in equity among the directors, manager and large shareholder(s):

Job title	Name	2019		as of March 31	
		Increase (decrease) in number of shares held	Increase (decrease) in number of pledged shares	Increase (decrease) in number of shares held	Increase (decrease) in number of pledged shares
Director	Yulong Investment Co., Ltd.	-	-	-	-
		-	-	127,000	-
Chairman and President	YEH, I-HAO	-	-	-	-
		-	-	-	-
Director	YEN, KUO-LUNG	-	-	-	-
		-	-	-	-
Director	CHIU, TE-CHEN	-	-	-	-
		-	-	-	-
Director	Zonglong Investment Co., Ltd.				
Independent Director	CHUNG, RONG-DAR (Note)				
Independent Director	LIN, HSIEN-MING				
Independent Director	CHEN, HOMIN				
Manager	CHEN, I-LIN				

Note: CHUNG, RONG-DAR was elected on June 10, 2019 as the substitute serving the office.

(2) The counterparty of an equity pledge who is also a related party shall disclose name of the counterparty, the relationship with the Company, Director, Supervisor, and/or shareholder holding more than 10% of the shares and number of shares obtained or pledged:

2.1 Equity transfer information: Not applicable, because it is traded freely in the exchange market.

2.2. Equity pledge information: not applicable.

8. Information Regarding the Relationship Between the Related Parties and the Top 10 Shareholders:

Name	Own held shares		Shares currently held by spouse and/or children under 20 years of age		Total shares held in the name of others		Where the relationship among the top 10 shareholders is a related party, spouse, and/or a relative by blood or marriage within second degree of kinship or relationship, please specify the name and relationship (Note 3)		Remarks
	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage	name	relationship	
New Labor Pension Fund	10,525,150	3.46%	N/A	N/A	N/A	N/A	—	—	
Yulong Investment Co., Ltd. representative: YEH, I-MING	7,083,059	2.33%	N/A	N/A	N/A	N/A	YEH, I-HAU	The Company's major shareholder	
	0	0%	N/A	N/A	N/A	N/A	YEH, I-HAU	Second degree of kinship or relationship	
Norges Bank Investment Account entrusted in Citibank Taiwan	6,808,303	2.24%	N/A	N/A	N/A	N/A	—	—	
The investment account of PGIA Progressive Total International Stock Index entrusted in J.P. Morgan Taipei	5,214,344	1.71%	N/A	N/A	N/A	N/A	—	—	
YEH, I-HAU	5,184,895	1.70%	N/A	N/A	N/A	N/A	Yulong / Zonglong Investment Co., Ltd.	The Company's major shareholder	
Public Service Pension Fund Supervisory Board	4,388,000	1.44%	N/A	N/A	N/A	N/A	—	—	
The investment account of Vanguard Emerging Markets Stock Index Fund entrusted by the Vanguard Group manager in J.P. Morgan Taipei	4,234,300	1.39%	N/A	N/A	N/A	N/A	—	—	
The investment account of APG's Emerging Market Equity Portfolios fund entrusted by Stichting in J.P. Morgan Taipei	3,798,500	1.24%	N/A	N/A	N/A	N/A	—	—	
Nan Shan Life Insurance Co., Ltd. Representative: DU, YING-CHUNG	3,773,000	1.24%	N/A	N/A	N/A	N/A	—	—	
	0	0%	N/A	N/A	N/A	N/A	—	—	
Zonglong Investment Co., Ltd. Representative: CHEN, HSIU-CHU	3,078,903	1.01%	N/A	N/A	N/A	N/A	YEH, I-HAU	The Company's major shareholder	
	0	0%	N/A	N/A	N/A	N/A	YEH, I-HAU	Second degree of kinship or relationship	

Note 1: The top ten shareholders shall be listed in full; corporate shareholder shall list its name and the names of its representative separately;

Note 2: The calculation of the shareholding percentage referred to the percentage of shares held in his/her/its own name, or

under the name of his/her/its spouse, children under 20 years of age, or others;
 Note 3: The relationship between above-listed juristic person shareholders and natural person shareholders shall be disclosed pursuant to the regulations governing the preparation of financial statements of the issuer.

9. The number of shares held by the company, the company's directors, supervisors, managers, and businesses directly or indirectly controlled by the Company in the same joint venture, and the combined shareholding percentage.

Unit: '000 shares; %

Joint ventures (Note)	Investments of the Company		Investments of the directors, supervisors, managers and their investment in business which they have direct or indirect control of.		Comprehensive investments	
	Number of shares (shares)	Shareholding percentage	Number of shares (shares)	Shareholding percentage	Number of shares (shares)	Shareholding percentage
Elan (HK)	29,328	100.00%			29,328	100.00%
Elan Investment Corporation	50,000	100.00%			50,000	100.00%
Elan Information	65	100.00%			65	100.00%
JPUP Electron Co., Ltd.	784	49.00%			784	49.00%
Metanoia Communications Inc.	9,730	63.60%	653	4.26%	10,383	67.86%
Avisonic Technology Corporation	12,542	80.08%	646	4.13%	13,188	84.21%
Tongfu Investment Co., Ltd.	3,000	46.73%			3,000	46.73%
Brighten Heart Technology Co., Ltd.	1,805	45.07%			1,805	45.07%
PiXORD Corporation Co., Ltd.	33,871	96.77%	174	0.50%	34,045	97.27%
Eminent Electronic Technology Co., Ltd.	4,113	28.94%	3,000	15.04%	7,113	43.98%
Wending Venture Capital Co., Ltd.	24,000	30.00%			24,000	30.00%
Uniband Electronic Corporation	5,000	24.69%			5,000	24.69%
Finger Pro. Incorporation	600	23.08%			600	23.08%

Note: Long-term equity investments of the Company using equity method.

IV. Capital Overview

1. Capital and Shares:

(1) Source of capital stock

Date	Issue price	Authorized capital stock		Paid-up capital		Notes		
		Number of shares ('000 shares)	Amount (NT\$'000)	Number of shares ('000 shares)	Amount (NT\$'000)	Source of capital stock (NT\$'000)	Stock subscription on offset by non-cash property	Other
May 1994	10	100,000	1,000,000	100,000	1,000,000	Established	N/A	N/A
Aug. 1997	10	110,600	1,106,000	110,600	1,106,000	Retained Earnings Transferred to Capital 100,000 Employee bonus 6,000	N/A	Document No. (86)Tai-Cai-Zheng(1)-52750 issued on July 5, 1997
Jul. 1998	10	147,140	1,471,400	147,140	1,471,400	Retained Earnings Transferred to Capital 331,800 Employee bonus 33,600	N/A	Document No. (87)Tai-Cai-Zheng(1)-52941 issued on June 18, 1998
Sep. 1999	10	164,854	1,648,540	164,854	1,648,540	Retained Earnings Transferred to Capital 147,140 Employee bonus 30,000	N/A	Document No. (88)Tai-Cai-Zheng-63446 issued on July 12, 1999
Jun. 2000	10	220,810	2,208,102	220,810	2,208,102	Retained Earnings Transferred to Capital 494,562 Employee bonus 65,000	N/A	Document No. (89)Tai-Cai-Zheng-35156 issued on May 2, 2000
Jul. 2001	10	450,000	4,500,000	295,038	2,950,383	Retained Earnings Transferred to Capital 662,431 Employee bonus 79,850	N/A	Document No. (90)Tai-Cai-Zheng(1)-43780 issued on May 2, 2001
Jul. 2002	10	450,000	4,500,000	329,239	3,292,391	Retained Earnings Transferred to Capital 295,038 Employee bonus 46,970	N/A	Document No. (91)Tai-Cai-Zheng-Yi-Zi-0910137334 issued on July 8, 2002
Jul. 2003	10	450,000	4,500,000	330,792	3,307,923	Convert corporate bonds to shares 15,532	N/A	Document No. Yuan-Shang-Zi-0920020871 issued on July 30, 2003
Oct. 2003	10	450,000	4,500,000	335,307	3,353,071	Convert corporate bonds to shares 45,148	N/A	Document No. Yuan-Shang-Zi-0920029312 issued on October 21, 2003
Jan. 2004	10	450,000	4,500,000	338,311	3,383,114	Convert corporate bonds to shares 30,043	N/A	Document No. Yuan-Shang-Zi-0930001801 issued on January 29, 2004
Apr. 2004	10	450,000	4,500,000	338,903	3,389,028	Convert corporate bonds to shares 5,914	N/A	Document No. Yuan-Shang-Zi-0930010383 issued on April 21, 2004
Jul. 2004	10	450,000	4,500,000	343,235	3,432,348	Convert corporate bonds to shares 43,319	N/A	Document No. Yuan-Shang-Zi-09300199753 issued on July 27, 2004
Sep. 2004	10	450,000	4,500,000	355,684	3,556,841	Retained Earnings Transferred to Capital 101,493 Employee bonus 23,000	N/A	Document No. Yuan-Shang-Zi-0930025813 issued on September 21, 2004
Jan. 2005	10	450,000	4,500,000	364,625	3,646,253	Convert corporate bonds to shares 89,412	N/A	Document No. Yuan-Shang-Zi-0940001655 issued on January 20, 2005
Apr. 2005	10	450,000	4,500,000	359,625	3,596,253	Capital reduction by Treasury Stock Retired (50,000)	N/A	Document No. Yuan-Shang-Zi-0940011303 issued on April 28, 2005
Oct. 2005	10	450,000	4,500,000	367,876	3,678,760	Retained Earnings Transferred to Capital 67,507 Employee bonus 15,000	N/A	Document No. Yuan-Shang-Zi-0940026465 issued on October 5, 2005
Aug. 2006	10	450,000	4,500,000	366,876	3,668,760	Capital reduction by Treasury Stock Retired (10,000)	N/A	Document No. Yuan-Shang-Zi-0950022570 issued on August 23, 2006
Oct. 2006	10	450,000	4,500,000	371,755	3,717,548	Retained Earnings Transferred to Capital 36,788 Employee bonus 12,000	N/A	Document No. Yuan-Shang-Zi-0950025887 issued on October 2, 2006
Nov. 2006	10	450,000	4,500,000	361,785	3,617,848	Capital reduction by Treasury Stock Retired (99,700)	N/A	Document No. Yuan-Shang-Zi-0950029921 issued on November 15, 2006

Oct. 2008	10	480,000	4,800,000	410,670	4,106,698	Capital addition from merger 488,850	N/A	Document No. Yuan-Shang-Zi-097002980 7 issued on October 21, 2008
Aug. 2009	10	480,000	4,800,000	415,936	4,159,360	Employee stock option executed 11,480 Retained Earnings Transferred to Capital 41,182	N/A	Document No. Yuan-Shang-Zi-098002334 3 issued on August 26, 2009
Jul. 2010	10	480,000	4,800,000	416,094	4,160,936	Employee stock option executed 1,576	N/A	Document No. Yuan-Shang-Zi-099002069 4 issued on July 19, 2010
Jul. 2011	10	480,000	4,800,000	416,343	4,163,428	Employee stock option executed 2,492	N/A	Document No. Yuan-Shang-Zi-21017 issued on July 21, 2011
Oct. 2012	10	480,000	4,800,000	418,245	4,182,445	Employee stock option executed 19,017	N/A	Document No. Yuan-Shang-Zi-32156 issued on October 17, 2012
Jan. 2013	10	480,000	4,800,000	418,938	4,189,381	Employee stock option executed 6,936	N/A	Document No. Yuan-Shang-Zi-1954 issued on January 17, 2013
Apr. 2013	10	480,000	4,800,000	428,228	4,282,277	Employee stock option executed 92,896	N/A	Document No. Yuan-Shang-Zi-102001076 4 issued on April 16, 2013
Jul. 2013	10	480,000	4,800,000	432,599	4,325,985	Employee stock option executed 43,708	N/A	Document No. Yuan-Shang-Zi-102002079 4 issued on July 15, 2013
Oct. 2013	10	480,000	4,800,000	433,215	4,332,125	Employee stock option executed 6,140	N/A	Document No. Yuan-Shang-Zi-102003160 8 issued on October 18, 2013
Apr. 2014	10	480,000	4,800,000	435,121	4,351,214	Employee stock option executed 19,089	N/A	Document No. Zhu-Shang-Zi-1030010997 issued on April 18, 2014
May 2014	10	480,000	4,800,000	438,598	4,385,978	Employee stock option executed 34,764	N/A	Document No. Zhu-Shang-Zi-1030014030 issued on May 19, 2014
Oct. 2014	10	480,000	4,800,000	439,335	4,393,348	Capital addition by employee stock option 7,370	N/A	Document No. Zhu-Shang-Zi-1030030508 issued on October 20, 2014
Dec. 2014	10	480,000	4,800,000	441,145	4,411,448	Employee stock option executed 18,100	N/A	Document No. Zhu-Shang-Zi-1030038314 issued on December 26, 2014
Aug. 2016	10	480,000	4,800,000	434,115	4,341,148	Capital reduction by Treasury Stock Retired (70,300)	N/A	Document No. Zhu-Shang-Zi-1050023250 issued on August 16, 2016
Aug. 2018	10	480,000	4,800,000	303,880	3,038,804	Capital reduction 1,302,344	N/A	Document No. Zhu-Shang-Zi-1070025345 issued on August 29, 2018

Types of stocks:

Unit: share

Types of stocks	Authorized capital stocks			Remarks
	Common stocks outstanding (stock of the listed company)	Unlisted stocks	Total	
Registered common stocks	303,880,392	176,119,608	480,000,000	—

(2) Shareholders structure

March 29, 2020

Shareholders structure Numbers	Government Agency	Financial Institution	Other legal persons	Personal	Foreign institution and foreigner	Total
Number of persons	-	16	241	44,030	263	44,550
Number of shares held	-	16,235,600	72,370,530	133,762,594	81,511,668	303,880,392
Shareholding ratio	-	5.34%	23.81%	44.02%	26.83%	100%

Note: The Company has no mainland China shareholders.

Note: The primary listing (OTC) company and listed company at emerging market shall disclose the percentage of shareholding funded by mainland China investment; “mainland China investment” shall, as identified in Article 3 of the “Regulations Governing the Permission for People from the Mainland Area to Invest in Taiwan”, refer to the

individuals, juristic person, group, other agencies or the company it invested in the third region.

(3) Stock dispersion

March 29, 2020

Shareholding ranges	Number of persons	Number of shares held	Shareholding ratio (%)
1 to 999	21,539	4,415,137	1.45
1,000 to 5,000	18,636	37,109,062	12.21
5,001 to 10,000	2,252	17,160,164	5.65
10,001 to 15,000	747	9,502,080	3.13
15,001 to 20,000	354	6,495,855	2.14
20,001 to 30,000	339	8,494,921	2.80
30,001 to 50,000	233	9,273,570	3.05
50,001 to 100,000	187	13,445,656	4.42
100,001 to 200,000	99	13,949,465	4.59
200,001 to 400,000	69	19,351,057	6.37
400,001 to 600,000	34	16,799,327	5.53
600,001 to 800,000	11	7,581,600	2.49
800,001 to 1,000,000	11	10,047,012	3.31
1,000,001 and above	49	130,255,486	42.86
Total	44,550	303,880,392	100

(4) Major shareholders list

March 29, 2020

Major shareholders' names	Shareholding	Number of shares held	Shareholding percentage (%)
New Labor Pension Fund		10,525,150	3.46%
Yulong Investment Co., Ltd.		7,083,059	2.33%
Norges Bank Investment Account entrusted in Citibank Taiwan		6,808,303	2.24%
The investment account of PGIA Progressive Total International Stock Index entrusted in J.P. Morgan Taipei		5,214,344	1.71%
YEH, I-HAU		5,184,895	1.70%
Public Service Pension Fund Supervisory Board		4,388,000	1.44%
The investment account of Vanguard Emerging Markets Stock Index Fund entrusted by the Vanguard Group manager in J.P. Morgan Taipei		4,234,300	1.39%
The investment account of APG's Emerging Market Equity Portfolios fund entrusted by Stichting in J.P. Morgan Taipei		3,798,500	1.24%
Nan Shan Life Insurance Co., Ltd.		3,773,000	1.24%
Zonglong Investment Co., Ltd.		3,078,903	1.01%

(5) Market price, net value, earnings and dividends per share in the past 2 years:

Unit: NT\$

Items		Year	2018	2019	As of March 31, 2020 Note (8)
Market price per share Note (1)	Highest		82.2	96.1	97.6
	Lowest		41.7	67.5	68.4
	Average		51.78	83.73	85.21
Net value per share Note (2)	Before distribution		21.66	25.02	26.23
	After distribution		16.66	18.52	19.73
Earnings per share	Weighted-average number of shares ('000 shares)		374,723	291,442	291,442
	Earnings per share (Note 3)	Before retroactive adjustments	4.16	8.57	0.18
		After retroactive adjustments	—	—	—
Dividends per share (Note 9)	Cash dividends		5.00	6.50	—
	Stock grants	Surplus distribution	—	—	—
		Capital surplus distribution	—	—	—
	Accumulated outstanding dividends (Note 4)		—	—	—
Investment yield analysis	P/E ratio (Note 5)		12.45	9.77	—
	Dividend ratio (Note 6)		10.36	12.88	—
	Cash dividends yield (Note 7)		9.66%	7.76%	—

Note 1: List the highest and lowest market prices of each year and calculate average market price base on trading value and trading volume of each year.

Note 2: Please fill in the number of shares that have been issued as of the end of the year according to the distribution decided by the shareholders meeting.

Note 3: If there are retrospective adjustments due to circumstances such as stock grants, both pre-adjustment and post-adjustment earnings per share shall be listed.

Note 4: If the equity securities issuance conditions stipulated that dividends that have not been paid in the current year can be accumulated to be paid in the surplus year, the accumulated unpaid dividends as of the current year shall be separately disclosed.

Note 5: P/E ratio = average closing price per share of the year / earnings per share.

Note 6: Dividend ratio = average closing price per share of the year / cash dividends per share.

Note 7: Cash dividends yield = cash dividend per share / average closing price per share of the year.

Note 8: Shall fill in information of the year as of the publishing date of the annual reports.

Note 9: Dividend per share shall be filled in according to profit distribution of the year and the distribution resolution to be adopted by a shareholders' meeting in the following year.

(6) The Company's dividend policies and implementation status

(1) Dividend policies:

The Company's dividends policies, taking into consideration the future demand of funds, overall internal and external environmental changes and shareholders' cash inflow demand, stipulated that if there is a surplus after the annual closing, 10% statutory surplus reserve will be contributed first, in addition to pay the profit-seeking enterprise income tax make up for previous annual losses pursuant to the laws, and the decreased shareholders equity amount of the year will be recognized in special reserve. Any remaining, together with the accumulated undistributed earnings carrying forward from the previous year, will be subject to resolution to be adopted by a shareholders' meeting for the distribution proposal adopted by the Board of Directors. The distribution ratio is as follows:

The amount of surplus to be distributed for the current year shall not be less than 50% of the cumulative distributable surplus; considering the funding demand for future expansion plan and investment, the cash dividend shall not be less than 10% of total dividends.

(2) Distribution of dividends proposed at the shareholders' meeting:

The Company's 2019 profit distribution proposal was authorized in 2020 by the 9th Board of Directors' 10th Board meeting, of which shareholders' bonus of NT\$1,975,222,548 was proposed to be appropriated from the available surplus as cash dividends at NT\$6.5 per share. The aforementioned dividend distributions are subject to the target dividend distribution date to be set by the Board of Directors upon resolutions adopted by the Annual General Meeting of Shareholders of this year.

(3) Any anticipated material changes in dividend policies shall be explained:
N/A.

(7) The impact of stock grants to be proposed at the shareholders' meeting on the Company's business performance and earnings per share:

Not applicable, because the Company did not disclosure 2019 financial forecast information pursuant to document number Tai-Cai-Zheng(1)-OO371 issued on 1 February 2000, provided that the Company is not required to disclose such information.

(8) Employee compensation and Directors and Supervisors' remuneration:

1. The employee compensation and the Directors and Supervisors' remuneration pay scale stipulated in the Articles of Association:

The Company shall, if there is any surplus upon annual closing, pay taxes and make up for accumulated losses first before appropriating 10% as statutory surplus reserve. However, this is not applicable if the statutory surplus reserve has reached the same amount as the Company's paid-up capital. In addition, special reserve shall be recognized according to the Company's Operating requirements and statutory provisions. Any remaining, together with the accumulated undistributed earnings carrying forward from the previous year, will be subject to resolution to be adopted by a shareholders' meeting for the distribution proposal prepared by the Board of

Directors. The dividend distribution ratio is as follows: The amount of surplus to be distributed for the current year shall not be less than 50% of the cumulative distributable surplus; the cash dividend shall not be less than 10% of total dividends.

The Company shall, if there surplus of the year, contribute no less than 10% as employees compensation and no more than 2% as Directors' remuneration, provided that, if the Company still has accumulated loss, the amount for making up the previous losses shall be reserved first.

2. Accounting treatment for the basis of listing the estimated amount of employees compensation and the Directors and Supervisors remuneration of the period, the basis of calculating the number of shares distributed as employees compensation, and when the actual distribution amount is different from the estimated amount: For this period, the Company relied on the Articles of Association and past references of actual Directors and Supervisors' remuneration payment to estimate possible payment amount for the employee compensation and Directors' remuneration. Any difference between the actual payment amount and the estimated amount will be treated according to "Changes in Accounting Estimates" and listed as profit or loss of the following year.

3. Remuneration distribution authorized by the Board of Directors:

The Company has authorized the 2019 profit distribution proposal by Board resolutions on 10 March 2020, but has yet authorized by the shareholders' meeting. the proposed distribution is as follows:

Unit: NT\$'000;'000 shares

Items \ Amount	Cash distribution	Share distribution			Remuneration	Any difference with the recognized estimated expenses of the year?
		Amount	Number of shares	Proportion to The sum of Net Income After Taxes plus employee compensation		
Employee compensation	339,000	0	0	0	0	No differences
Directors' remuneration	0	0	0	0	43,500	

4. Actual distribution of employee compensation and Directors and Supervisors' remunerations of the previous fiscal year:

The Company has Authorized the 2018 profit distribution proposal by Board resolutions on 12 March 2019 and authorized by Annual General Meeting of Shareholders on June 10, 2019. The actual distributed employees compensation and Directors Supervisorss remunerations are the same as that of adopted resolutions. The actual distribution is as follows:

Unit: NT\$'000;'000 shares

Items \ Amount	Cash distribution	Share distribution			remuneration	Differences between the expenses recognized with the original amount proposed by the Board of Directors
		Amount	Number of shares	Proportion to profit transferred		

Employee bonus	226,000	0	0	0	0	No differences
Directors and Supervisors' remuneration	0	0	0	0	29,000	

(9) The Company's repurchase of company shares: N/A

2. Corporate Bond: N/A.

3. Preference Share: N/A.

4. Issuance of overseas depositary receipt: N/A.

5. Employee Stock Option Certificates:

(1) The progress of the Company's outstanding employee stock option certificates as of the publishing date of the annual reports and its impact on shareholders' equity shall be disclosed: The Company has no outstanding employee stock option certificate.

(2) Name of the managers who acquired employee stock option certificates and top 10 employees who acquired stock option certificates, and the detailed of the employee stock option certificates acquisition as of the publishing date of the annual reports: N/A.

(3) Status of restricted stock awards: N/A.

6. Status of New Shares Issuance in Connection with Mergers and Acquisitions: N/A.

7. Financing Plans and Implementation: N/A.

V. Operating Highlights

1. Operating activities

(1) Scope of business:

(1) Major business operations:

Research, development, production, manufacture and sales of the following products:

- (a) Neural network and fuzzy processor
- (b) Digital signal processor
- (c) 8-bits RISC Microprocessor
- (d) Application-specific integrated circuit
- (e) Import and export trading business related with the Company's business.

(2) Major business operations in 2019 and its sales proportion:

Operating activities	revenue (NT\$'000)	sales proportion (%)
Consumer touch control IC	3,082,316	32.48
Notebook input devices module	6,227,996	65.64
Network communication IC	88,084	0.93
video process IC	51,793	0.55
safety monitoring module	37,788	0.40
Total	9,487,977	100.00

(3) Planned new product development:

New products that the Company planned to develop include:

- The development of biometric solutions for low power consumption smart cards
- The development of ultra-thin ICs for biometric screens
- The development of anti-spoof biometric solutions
- The development of touch pad solution with active pen
- The development of highly integrated pointing stick solutions
- The development and support of low power consumption touch screen solutions (> 15.6 inches)
- The development of solutions supporting large touch-display integrated (LTDI) solutions
- The development of low power consumption / high sensitivity / high noise-cancelling smart watch control IC

(2) Industry overview

(1) Industry status:

According to WSTS, the global semiconductor output value has reached US\$412,100,000,000 in 2019, a 12.1% growth from 2018. The total sales volume in 2019 has reached 932,000,000 units (a 7.2% drop from that of in 2018); the average selling price in 2019 was US\$0.442 (a 5.3% drop from that of in 2018). The sharp adjustment of memory prices in 2019 is the main cause of the global decline in semiconductor output. According to statistics, the memory market accounts for 26.7% of the overall sales of semiconductors. Due to the oversupply of DRAM, the memory market revenue in 2019 dropped by approximately 30%.

Looking forward into the year of 2020, WSTS, Gartner, IC Insight, IDC, etc., predicted that global semiconductors will resume growth momentum in 2020 with a 3.2% ~ 11.4% increase in growth due to the increasing business opportunities in 5G, AI, IOT, etc., subject to the improvement in memory market conditions. However, under the impact of Covid-19 pandemic, the development of the global semiconductor still requires continuous observation.

According to the analysis of IEK of the Industrial Technology Research Institute, Taiwan IC industry reached NT\$2,665,600,000,000 in 2019 (an annual growth rate of 1.7%), which is better than the average of global semiconductor industry, of which the IC design industry shows the biggest growth rate with output value of NT\$692,800,000,000 (an increase of 8% from that of in 2018). The IC manufacturing industry reached NT\$1,472,100,000,000 (a 0.9% drop from that of in 2018), of which IC foundry reached NT\$1,312,500,000,000 (a 2.1% increase from that of in 2018). Memory and other manufacturing reached NT\$159,600,000,000 (a 20.4% drop from that of in 2018). The IC packaging industry reached NT\$346,300,000,000 (a 0.5% increase from that of in 2018). And the IC testing industry reached NT\$154,400,000,000 (a 4% increase from that of in 2018).

According to the analysis of IEK of the Industrial Technology Research Institute, the upstream and downstream industrial chain of Taiwan's semiconductor industry is complete, the division of labor is unique, the IC design value ranks the second in the world, and the output value of IC foundry and IC packaging and testing ranks the first in the world. The value added of export value, employment population or other industry-related benefits are all among the best in Taiwan's manufacturing industry.

At the same time, observing the development of the semiconductor industry in mainland China, the development of industrial technology has achieved fruitful results under policy support. According to the latest statistic results, there are 1780 IC design companies in China in 2019, compare to 1698 companies in 2018 (an increase of 82 companies). The estimated output value of China's IC design industry has reached RMB308,490,000,000 in 2019 (an annual growth rate of 19.7% compare RMB257,700,000,000 in 2018), which exceeded RMB30,000,000,000 for the first time. According to the statistics, the threshold of becoming top ten IC design company in mainland China has increased to RMB4,800,000,000 (the threshold last year was RMB3,000,000,000), and the sales volume of the top ten companies reached RMB155,800,000,000, which accounted for 50.1% (only 40.21% in the previous year) of the total IC design sales in mainland China and is the highest growth rate in recent years, indicating stronger market monopoly power of the mega companies.

- (2) The relationship between upstream, midstream and downstream industries
The upstream and downstream industrial chain of Taiwan's semiconductor industry is complete, the division of labor is unique, the IC

design value ranks the second in the world, and the output value of IC foundry and IC packaging and testing ranks the first in the world. The overall development ranked a key position in the world. The most important feature is the professional division of work, which is also the most important basis driving Taiwan's semiconductor development for the past 40 years. The semiconductor wafer foundry manufacturing industry is a capital and technology-intensive industry. Currently, it has entered the era of mature 8-inch wafers and advanced 12-inch wafers. The construction of plants and equipments that cost tens of billions of Taiwan dollars has become a basic requirement. Taiwan Semiconductor Manufacturing Co., Ltd., a global IC foundry company, has commenced 7 nm and 5 nm process nodes, while planning to pursue R & D for 3 nm to introduce more advanced process nodes, lead continued growth of Taiwan's wafer foundry industry, and contribute to the overall development of Taiwan's semiconductor industry.

In 2019, Taiwan's IC industry showed an annual growth of 1.7%, reaching NT\$2,665,600,000,000, which is better than the average of global semiconductor industry, of which IC manufacturing showed the highest output value. Taiwan's entire semiconductor industry, backed by robust IC foundry, drives the complete development and growth of the entire industry. Currently, IC foundry industry in Taiwan ranks among the most important behind-the-scenes heroic roles in the world. In 2019, the manufacturers' overall market share of Taiwan's foundry industry exceeded 60%; it's every move affects global electronic industry, which also drove the overall industrial competitiveness in related industrial chain such as the packaging and testing, photomasks, and IC design industries and created a mutual co-prosperity relationship.

Comparing with the integration of upstream, midstream and downstream IC industries in the United States, Japan, South Korea, and other countries, Taiwan has adopted a highly specialized division of work; any of the IC design, photomask manufacturing, wafer manufacturing, cutting, packaging, and testing industries can be an independent industry. The vertical division of work in Taiwan's IC industry has become increasingly integrated over the years, making the semiconductor industry cluster increasingly profitable, and the semiconductor industry has now exceeded NT\$2 trillion under the specialization approach of concentrating resources in a single industry, making it not only Taiwan's important economic lifeline, but also puts it at an unassailable position in the global 3C industry and market.

(3) Product development trend and status of competition

Biometrics has become a standard feature of smart phones. In 2019, the penetration rate of capacitive fingerprint recognition ICs used in mobile phones has exceeded 60% and become increasingly mature. Due to fierce market competition and high and saturated penetration rate in the mobile phone market, the market has gradually shifted toward the development of diversified biometric products, especially optical recognition, ultrasonic identification and other biometrics solutions. It is estimated that the market penetration rate of optical recognition, ultrasonic identification and other

biometrics solutions in 2019 will exceed 10%, providing users with more diversified choices.

As the penetration rate of smart phones has been high and there are many biometric manufacturers competing in the mobile phone market, therefore, it is the focus of the Company to break away from the competitive market and seek a profitable market. Thus, in addition to the continuous works on smart phones, capacitive biometric ICs have added anti-spoof function and focused strongly on the notebook computer market, offering high value-added encryption, payment, anti-spoof and other functions product features to provide customers with the best market competitiveness, while focusing on the development of biometric screen, hoping to continue to provide a full range of solutions to branding customers while maintaining the smart phone market.

Secondly, the Company has long invested in the development and application of touch control technology and has patents in the United States, Japan, mainland China, and Taiwan. In general, the touch control ICs that the Company successfully developed and mass produced are applicable in touch control panels of various large, medium, and small sizes, coupled with fully integrated terminal pre-sales and after-sales services for smart phones, tablet computers and touch control notebooks. The Company will continue to provide customers with an overall solution that is more competitive in the international market.

In the meanwhile, the Company is at a key market position while facing global rivals in the touch control IC industry, among which the touch control notebook ICs accounted for more than 60% of global market share and the touch pad modules also accounted for more than 40% market share, outrun the other competitors, ranking first in the market. The competitors that the Company is currently facing include many IC design companies at home and abroad such as US manufacturer Synaptics and Microchip, Alps of Japan, and Goodix of China. The increasingly fierce competition has also led to a decline in IC prices, therefore, effectively improving IC performance, increasing added value of the product, reducing IC production costs, establishing competitive technical thresholds and sales channels are the goals of the Company's continuous efforts in 2020.

Current product lines of ELAN Microelectronics and affiliates:

The Company currently has two major products categories and five major product lines:

The two major product categories are touch control and non-touch control categories, respectively. The revenue of touch control category is the main driving force of the business for 2019. Touch screen ICs and touch pad module accounted for more than 73% of last year's revenue. The five major product lines include touch screen ICs, touch pad module, fingerprint recognition ICs under touch control category, and MCU and under non-touch control category.

- (1) Touch screen ICs: accounting for 18% of revenue in 2019. The applications include smart phones, tablet PCs, notebook PCs, AIO PCs, e-books, etc. The domestic and foreign competitors are US manufacturers Synaptics and Microchip, Goodix of China, and Focaltech and Parade of Taiwan.
 - (2) Touch pad modules and ICs: accounted for 50% of revenue in 2019 and were mainly used in notebook computers. The domestic and foreign competitors include US manufacturer Synaptics, Alps of Japan, etc.
 - (3) Biometric ICs: accounted for 5% of revenue in 2019. The range of applications was very broad, ranging from smart phones, notebooks, tablets, smart cards and PC peripherals to IoT. The domestic and foreign competitors include US manufacturers Synaptics, FPC of Sweden, Goodix of mainland China, and Egis of Taiwan, etc. In 2020, the capacitive biometric ICs will focus on the notebook market, seeking maximum revenue and profits. In the meanwhile, since the optical biometric for screen is growing, the Company is also striving for this huge potential business opportunity.
 - (4) MCU IC: accounted for 12% of revenue in 2019. The main core technologies of the Company's MCU IC products are: 8-bit RISC processor, 16-bit MCU with DSP computing function and development platform, which were mainly used in small or large home appliances, security systems, communications peripherals such as chargers, high-end interactive toys, mobile phones, electronic dictionaries, language learning machines, optical mouse, keyboard control ICs and other markets. Domestic competitors include Generalplus, Holtek, Pixart, Sonix, Nuvoton, etc.
 - (5) Pointing stick: accounted for 13% of revenue in 2019. This product is used in notebooks. At the same time, the Company has gained a new US customer, hoping to expand its revenue. The main competitors are foreign manufacturers, such as Synaptics of US, Alps, NMB, etc.
- (3) Technology and R & D overview:
- (1) R & D expenditures for the past 2 years:

Unit: NT\$'000

Items	Year	2019	2018
R & D expenses		1,596,392	1,531,009
Net Income		9,487,977	8,651,332
Proportion to Net Income		17%	18%

Source: CPA's report

- (2) Technology or products successfully developed:
- Completed the development of low power consumption touch screen solutions
 - Completed the development of MPP2.0 active pen solutions
 - Completed the development of optical biometric ICs
 - Completed the development of high waterproof, low power consumption touch pad solutions
 - Completed the development of touch-display integrated single-chip solution for mobile phone supported active pens
 - Completed the development of the ear detection / touch IC for True Wireless Stereo (TWS)

- Completed the development of low power consumption, independent smart smoke sensor control IC
 - Completed the development of Lighting Touch Pad solution
- (3) Affiliates: products and planned product developments of Metanoia Communications, Avisonic Technology and PiXORD:
- Metanoia Communications: main products include ICs and solutions for VDSL2 /VDSL35b system, ICs and solutions for G.fast system, and VDSL2/VDSL35b/G.fast SFP modules.
- Products planned to be developed include new generation VDSL35b, G.fast's latest ultra high-speed broadband IC for 424MHz /212MHz /106MHz bandwidth, 5G MIMO AAU / RRU (Sub-6G) digital antenna ICs, and 5G NR small cell and FWA CPE ICs.
- Avisonic Technology: Avisonic Technology's current main products include: (1) fisheye lens image calibration processing ICs; (2) megapixel high-resolution image processing ICs; (3) AI Box application on advanced driver-assistance systems (ADAS).
 - PiXORD: present main products include: (1) 5 Mega Pixel 360 degree Fisheye H.264 IP Camera; (2) Dual Lens Panoramic Dome Network Camera; (3) 2 Mega Pixel Low Lux Outdoor Bullet Network Camera; (4) VDSL2 Point to Point Long Distance Media Converter; (5) Artificial Intelligence Traffic Detection System.
- (4) Long-term and short-term business development plan
- (1) Short-term plan
- A. Marketing strategy:
- (a) In order to meet the market demand for smart terminal device products, various IC protocols for smart phones were developed. For example, the capacitive fingerprint sensor module is one of the corresponding solutions. In addition, TDDI and TDDI ICs with pen functions are all alternative solutions supporting various IC protocols for smart phones. At the same time, the optical biometric for screen is also under development, which can enhance the visibility in the smart phone market with various diversified solutions, while fighting for orders through various types of cooperation with the specification developers, panel manufacturers, module factories, mobile phone ODM plants, etc.

The Company's touch chip sales model also meets the diversified demands of end customers. Taking the Window 10 architecture as an example, there are two ways to apply it to notebooks: one is modular sales approaches for touch pad, and the other is single-chip sales approaches for touch screen. This year, the Company continues to strengthen the marketing of touch screens with active pens and dual-screen function of Window 10X, which has market dominance to facilitate sales performance improvement, and, most importantly, it provides customers with the best platform backed by the most competitive cost-effective

and engineering support to help customers in gaining a broader market share.

- (b) Strengthen the development of OBMs in Taiwan, mainland China, US and Northeast Asia markets of budget smart phones, tablet PCs and notebooks with fingerprint recognition and touch control, in order to increase the number of customers and the number of cases to enhance the operating momentum.
 - (c) Gain more home appliance customers in mainland China by all-purpose MCU with low power consumption and high noise-cancelling ability; and earn greater market share by launching touch pad control IC with high noise-cancelling ability for home appliances, and MCU for brushless DC motors.
 - (d) Require business marketing personnel to work deeper into the industry and face customer demand directly, in order to master the overall industrial supply chain, understand the key demand of the market, identify customers who can generate business energy, and seek cooperation and collaboration with muscle of the industry. At the same time, establish office in the main markets with after-sales service engineers ready at all time to provide customer with the best services in line with business demands.
- B. Product development direction:
- (a) The development of touch-and-display 2-in-1 integrated ICs for smart phones was completed: and equipped with pen function, while the touch-control ICs with pen function can also apply to both hard and soft OLED panels, which will effectively reduce costs and improve performance. At the same time, the Company seeks market differentiation through touch-control ICs with pen functions to emphasize market differentiation and gain more branding customers. All of these are various IC solutions for smart phones.
 - (b) Developing biometric solutions for low power consumption smart cards, which will expand huge business opportunities in credit cards, debit cards, social security cards, and employee access control cards.
 - (c) Developing ultra-thin ICs for biometric screens, which will be a new solution adopted by 5G smartphones in the future and is one of the markets worth exploring.
 - (d) Developing anti-spoof biometric solutions, which can be widely used in smartphones, notebooks, credit cards and other markets.
 - (e) Developing touch pad solutions with active pen to provide users with more diversified usage solutions.
 - (f) Developing highly integrated pointing stick solutions, which differentiates integrated solution and is expected to facilitate the expansion of the market share of pointing stick.
- C. Production strategies:
- (a) Strengthen the planning and management for automation of the entire production process to improve output efficiency of the modules and achieve rapid delivery. At the same time, prepare

capacity planning in advance for the demands arising from wafer foundry capacity, packaging and testing, and biometric products related materials, while working closely with business units to meet the requirements of on-time delivery.

- (b) Maintain close cooperative relationship with upstream, midstream and downstream players in the semiconductor industry, such as foundries, touch screen manufacturers, liquid crystal display panel (LCD) manufacturers, notebook ODM /OEMs and mobile phone module foundries, packaging and testing factories, photomask factories, hardware and software manufacturers and other outsourced vendors, ensure good communication with each other, acknowledge different production processes of each manufacturer and related progress and changes, effectively reduce inventory by various countermeasures through motorized operations and activate optimal production efficiency.

D. Operating strategies:

- (a) More flexible product sales strategies: The use of modular, single-chip and other sales approaches are the key sales approaches for continuous implementation, in order to strengthen market expansion, increase revenue scale effectively, meet customer demands and further enhance deeper understanding of the market. In particular, the modular business model has accounted for more than 60% of the revenue; it covers many component procurement, characteristic analyzation, cost control and other operations, allows ICs design to cross over to the manufacturing side, and possesses more Know- How, which will build a competitive threshold to effectively block competitors from joining the competition, while facilitating the increase of the Company's revenue and profit.
- (b) Concentration: In order to cope with the increasingly fierce competition in the overall market, the Company focuses on the competitive and profitable application markets. In terms of notebooks, the Company offers a variety of different solutions, such as touch screen ICs, touch screen pen-based ICs, touch pad modules, pointing sticks, biometric encryption, payment functions, etc. The Company gradually expands market size and increases market share through differentiated product features, customized requirements and all-round services. In 2020, it will add 3D security capacitive and optical biometric sensing modules into active market development for smart phones, hoping to increase the scale of smart phone operation.
- (c) Performance optimization: apply touch control function to the Company's full range of products and introduce the competitive pen function into various consumer products will not only increase products' added value, but also effectively improve customers and the Company's market competitiveness and increase average selling price (ASP) in order to increase gross margin of the products.

- (d) Go hand-in-hand with brand, ODMs and related supply chains customers: strengthen cooperative programs with branding customers while diversifying by collaborating with ODMs and customer resources of upstream, midstream, and downstream supply chains to improve operating performance.
 - E. Financial strategy:
Seeking cooperation opportunities in the industry's upstream, mid-stream and downstream supply chains to achieve corporate financial benefits by means of investment, to increase product complementarity and drive revenue growth by combining the resources of both companies, while achieving maximum effectiveness in fund utilization through sound financial operation.
- (2) Long-term development plan
 - A. Marketing strategy:
 - (a) Set Taiwan in Asia as the operating headquarter and the center of strategic management in building global marketing network and distribution network (including renowned notebook, smartphone and tablet PC ODMs in Asia are all important customers of the Company); flexibly use the marketing and technical support capabilities of the Company and the agents' distribution system; strive to become the most important leader in the market and aim at improving operational performance every year by cooperating with well-known US, Japan and China companies to jointly develop new application market (e.g. credit cards, debit cards, access control cards and other different markets); provide product design services through the Company's powerful patent network; strengthen the application of various products; increase gross margin of the products.
 - (b) Actively deepen the relationship with branding customers and marketing channels in Europe and the United States. First of all, strengthen the promotion with renowned US and European branding customers of consumer electronic products and establish cooperative partnerships with brand factories and ODMs to strategically develop towards internationalization, accumulate higher penetration rate in tier-one manufacturers, focus on renowned customers with strength and potential and provide comprehensive marketing and complete after-sales services, in order to boost revenue and increase market awareness and market share.
 - (c) Actively establish the Company's own elite talent pool, to enhance international marketing capabilities and strengthen technical support, and obtain cooperative opportunities with world-class manufacturers.
 - B. Product development direction:
 - (a) Continue the collaboration with multiple renowned platform industry players in U.S. and Japan to launch products that respond to the latest demands of the market, which will be applied in smart phones, tablet PCs, notebooks, smart home appliances and other products.

- (b) Actively collaborate with affiliate(s) of joint venture(s) and related IoT technology companies to jointly develop AI technology related platforms and to invest in automotive electronics, smart home, smart city, smart transportation, video surveillance and other fields.
 - (c) The era of information and network security is coming. In response to the market demand for various smart terminal products (notebook or mobile phone), biometric sensing module adding encryption, payment, anti-spoof and other functions are essential. The Company also proposed a number of solutions such as ultra-thin ICs for biometric screens, capacitive products, etc., and continue to innovate new and different specifications thereof to meet the market demand in response to the consideration for thinness and cost minimization.
- C. Production strategies:
 - (a) Continuously improve product yields to improve product quality, reduce production costs, and effectively increase gross margins.
 - (b) Establish a close cooperative relationship or strategic alliance with the outsource factories to ensure sufficient production capacity.
 - (c) Seek the best production method between process nodes and products in order to produce the most competitive product with effective and low cost production capacity.
- D. Operating strategies:
 - (a) Effectively use self-developed MCU in various bits and digital signal processor technologies, together with outsourced advanced developing technology, licensing or cooperation, to launch high-integration ICs, modularized products and application platforms with competitive prices and quality in various application fields through integrating the IP and technologies required for the communication, consumer electronic, notebook PCs, smart phones, tablet PCs and other application fields, and cooperate with leading manufacturers in various fields to create a win-win situation and expand business scale.
 - (b) Focus on competitive products, expand their scope of application, enhance differentiation strategy and derive creative concept products with business opportunities, especially in touch control related products, in order to increase business scale, gross profit margin and profitability.
 - (c) Strategic alliances: leverage on external strength, seek related upstream and downstream industries with similar goals, work together to achieve coexistence and common prosperity.
- E. Financial strategies:

Fully utilize, in line with the continuous expansion of business scale, various types of financial instruments in the capital market to obtain lower-cost working capital and strengthen the financial structure.

2. Market and Sales Overview

(1) Market analysis:

(1) Sales regions of major products during the past 2 years

Unit: NT\$'000

Region \ sales	Year	2019		2018	
		Sales amount	Percentage (%)	Sales amount	Percentage (%)
Taiwan		987,990	10.41	1,107,829	12.81
China		2,020,647	21.30	1,847,316	21.35
Hong Kong		6,424,206	67.71	5,613,718	64.89
Other		55,134	0.58	82,469	0.95
Total Net Income		9,487,977	100.00	8,651,332	100.00

Although global smartphone shipment growth has remained flat in the past few years, total shipments in 2019 have declined compared to the average annual shipments in 2015-2018; global smartphone shipments in 2019 were 1,371,000,000 units (an annual decrease of 2.3%). Looking towards the future, IDC believes that 5G mobile phones are expected to become an important weapon in 2020, reversing the previous three consecutive years of decline. As the notebook computer shipment report shows, it is affected by the increase in the demand for commercial notebooks in 2019 with an annual increase of 1.6%. It is estimated that the shipment of notebooks in 2019 will be 165,000,000 units.

Shipment of notebooks is expected to reach 161,000,000 units in 2020, which is a slight decrease from that of last year. During the entire year of 2019, a total of 144,100,000 tablets were sold worldwide (an annual decrease of 1.5%), of which, Apple iPad is still the biggest winner with a total shipment of 49,900,000 units (an annual increase of 15.2%) and a market share of 34.6%; Samsung, Huawei, and Lenovo are in second, third and fifth places respectively, with shipments decreased by 7.2%, 3.5% and 4.2% respectively; Amazon ranks fourth, with shipments increased by 9.9%.

Personal privacy and online information security is also an important development trend. Mobile payment has becoming a major usage habit allowing users to complete transactions easily through mobile devices, such as smart phones, notebooks, tablets, smart cards, PC peripherals, etc. However, the actual penetration rate of mobile payment usage is still low. The security and reliability in making payment and reasonable fee of using mobile payment, etc., are still the most concerned issues of the consumers. Although biometric IC are now used as a key component for smart phones, the real use of smart phones in the payment is still limited to specific markets and not fully popularized.

Although biometric ICs have shifted from capacitive to optical or ultrasonic waves capable, the new ICs are adapting changes in materials such as changing from TFT LCD to OLED panel, etc., and all the required characteristics are different, but after various APPs are provided on each platform, the means to protect the privacy of consumers and the security in Internet usage to avoid hacking is very important for consumers; therefore, encrypted ICs are thus born. This product facilitates the provision of differentiated competing energy and improvement in operations.

In the meanwhile, smart card products with biometric and anti-spoof functions (including credit card, ATM card, Easy Card, ID card, NHI card, etc.) are the application products with the most long-term potential. Many cards are not limited to one personal use, therefore, the market opportunity is optimistic. Other the other hand, smart cards adopting device with biometric function can effectively prevent the spread of fake cards and reduce credit cards incidents and disputes between banks and users arising from lost of credit cards and unauthorized use of credit cards; which, in addition to ensuring the security of the personal property, it also maintains goodwill of the vendors. The biggest difference is that the consumers have long been issued with the cards free of cost without purchasing. The means to reduce the cost of the smart card product with biometric function is also a key task. At present, biometric vendors are actively striving for market opportunities in this field.

In addition, the Company has long been engaged in the development and application of touch technology, and has patents in the United States, Japan, China and Taiwan. In general, the application of the successfully mass produced touch control ICs that the Company researched and developed covers touch panel of various large, medium and small sizes, and coupled with complete terminal pre-sales and after-sales services for smart phones, tablets and stylus notebooks. The Company will continue to provide customers with a total solution that is more competitive in the international market.

The means to unleash the competitive advantage of the Company is a top priority. The Company works closely with the world-renowned Pen Protocol specification makers to provide terminal customers with the specification makers' latest and best solutions for smart phones, notebooks, tablets and other products. Due to the increasing size of smart phone screens and the availability of flexible and foldable phones, the potential for future development of pen-based touch control IC is anticipated.

While facing the global competition from peers of the touch control IC industry, the Company is still maintaining its leading position; of which the touch screen notebook ICs account for more than 60% of the world market share, while the touch pad modules also account for more than 50% of the world market share. At present, the competitors include many domestic and foreign IC design companies, such as American manufacturers Synaptics and Microchip, Japanese manufacturer Alps and China manufacturer Goodix. On the other hand, due to the increasingly fierce competition, IC prices also dropped; therefore, effectively improving the performance of ICs, reducing IC production costs, establishing differentiated product characteristics, competitive technology thresholds and sales channels are the goals of the Company's continued efforts in 2020.

The most important applications in the touch control industry are smart phones, notebooks and tablets. As competitors have accelerated their investment in recent years, the number of manufacturers have increased and their production capacities have expanded. As a result, competition among the entire supply chain has intensified, and manufacturers that cannot maintain strong competitiveness

cannot profit or are forced to withdraw from the competition.

As for the pointing stick products for notebooks, the Company currently ranks first in the world in terms of market share. The Company mainly supplies to the world's largest notebook manufacturers. The Company has successfully developed high anti-noise and anti-RFI interference pointing stick sensor ICs, gained a US customer, and continue expanding market share.

As for the MCUs, the Company will continue to develop lower power consumption IC platforms to provide customers with the best solutions, while strengthening the collaboration with solution companies in mainland China and providing the best cost-effective control ICs.

(2) Market share:

The Company is a professional IC design company with a full range of integrated solutions. It has a strong R & D team and invests more than 15% in R & D each year. It is a IC design company that focuses on research and development of new products. The quality of products developed by the Company is recognized by the customers; the proportion of revenue from global tier-one manufacturer customers accounted for more than half of the total revenue. The touch control notebook ICs accounted for nearly half of the world's market share. At present, the Company has three products that ranks first in the world, namely stylus notebook screen IC, touch pad module and pointing stick.

According to the data from IEK of ITRI, output value of Taiwan's IC design industry reached NT\$6,928 trillion in 2019; the proportion that the Company accounted for was approximately 1.37%.

(3) Future supply, demand and growth of the market:

In the past, the growth experience of semiconductors and the global economic growth rate of GDP are showing a synchronous trend. The International Monetary Fund (IMF) predicted, however, that Covid-19 pandemic will cause global economic growth to decrease by 0.1% to be 3.2% in 2020. Since Covid-19 pandemic has disrupted the economic activities of mainland China, International Monetary Fund (IMF) has revised down its global economic growth forecast for 2020 and revealed that 2019 would have the smallest increase of 2.9% since the financial crisis 10 years ago.

However, the real impact on semiconductors is the changes in the terminal market demand. It is obvious that current market saturation of the most demanded consumer electronics products (including smart phones, notebooks and tablets) of semiconductors are quite high, of which the penetration rate of smart phone has been high. The market is expecting 5G can drive sales in the mobile phone market. The original participating manufacturers have all carried out according to the plan, but Covid-19 pandemic disrupted the entire rhythm. The releases of new phones were all postponed; tablets, on the hand, have been on the downhill every year; while notebook industry remains flat. Therefore, it is inevitable that semiconductors will encounter headwinds in the short term. However, as AI, 5G, Internet of Things, automotive electronics, etc., are still promising, that is to say, after a short dive, subsequent development of semiconductors is still promising.

Although the uncertainty in overall economic prospects has enhanced, while China's strong policy support on semiconductor industry remains unchanged, of which the goal is to boost domestic supply and demand percentage; therefore, in order to meet the challenges of the overall external environment, the Company, as a member of semiconductor design companies with its main markets concentrated in North America and Asia, will combine US and Japan platforms, the strength of the specification developers, the Company's insight into the market and customer needs, and IC design capacity to jointly expand global market and continuously seek profitable IC products and corporate cooperation or alliances to enrich it strength, through different feasible mechanisms in order to respond to the changes in the overall economy and the market.

The application of artificial intelligence can be regarded as the next wave of huge business opportunities following smart phones, PCs and tablets. The Company plans to AI-ize the existing products in the initial stage to enhance the competitiveness of the IC products and combine its own technology to jointly develop competitive smart devices to drive the Company's business growth.

(4) Competitive niche:

A. Possession of strong R & D team and huge patented technologies;

- B. Master the key technologies and IP of the products with important competitive advantages;
- C. Specialized technical services, effective product integration and provision of customer & technical engineering supports;
- D. Provide modularized solution that is different from the peers' operating models. Differentiated sales strategies effectively enhanced closer relationships with the customers;
- E. Well-established distribution agents and global sales offices at home and abroad;
- F. Collaboration and mass production experience with domestic and foreign smart phone module manufacturers, touch control manufacturers, panel manufacturers and notebook ODMs.

(5) Favorable and unfavorable factors of development prospects:

A. Favorable factors

- The Company focused on the global market, combined with renowned platforms providers and specification makers in the United States and Japan, and conducted comprehensive contacts with tier-one brands and customers in China to gain purchase orders. There are gradual progress, which gradually reflected in operating performance. In 2020, the focus of market development will be continuous enhancing the penetration rate of global branding manufacturers in using the Company's IC products, as well as the tier-one branding customers in mainland China.
- Flexible business strategies: modularized, single-chip or chipset methods of sales are available. Among them, the modularized sales model can enhance closer collaboration with system manufacturers and access to the earliest market information, which is favorable in gaining purchase orders.
- Man-machine interface operation: Touch control applications are becoming more and more popular in smart mobile devices. This kind of operation mode that emphasizes man-machine interface is becoming more and more popular and has already penetrated into various types of consumer electronic products with increasing penetration rate over the years. The Company owns patented multi-finger technology that can be widely used in various consumer electronics products, just in line with the development trend of the market.
- Own a strong R & D team and hundreds of patented technologies.
- Close to the market: outsource production in the vast consumer market, achieve the goal of rapid delivery, and strengthen customer service.
- Complete system of production chain: various large-scale domestic and foreign wafer factories and related packaging and testing downstream subcontractors will expand the scale of capital expenditures, which will be favorable when IC design companies expand their production cooperation. At the same time, the increasingly specialized division of work of the above-mentioned manufacturers has already evolved into considerable economic scale, providing the Company with stable wafer supply and related post-processing services while effectively controls production quality and timeliness, reduces production costs and risks, all of which are favorable for the development and timing of new products.
- Long-term collaboration with upstream, midstream, and downstream supply chains of the customers: understand the requirements of production and process nodes, reduce

processing time, reduce peripheral costs and increase production efficiency.

- In response to the demand for market price/function ratio: As the market is increasingly competitive, reducing the size of IC and overall cost has always been the goal of the company. At the same time, with regard to the different requirements of product features in different markets, the company also provides a diversified product range to provide different product solutions in response to customer demand.
- Product diversification: low impact from the economic environment, broad distribution channels, low impact from changes in a single market, and a stable customer base.
- Consumer electronic digitalization has become the mainstream of the market. Since the establishment of the Company, it has oriented towards consumer electronics and the market, and realized that consumer electronics is already the mainstream industry in the future. Therefore, the continuous introduction of new products helps the Company in meeting the market demand.

B. Unfavorable factors

- The IC design industry is highly dependent on wafer production capacity and is susceptible to wafer manufacturer; when the wafer production capacity is full, IC design companies must pay higher costs to obtain production capacity.
- The amount of development funds invested in artificial intelligence-related applications is relatively high, the application environment is in the thriving period, the product life cycle is short and the changes are rapid, creating pressure on product development.
- R & D talents are an important lifeblood for the survival and development of IC design companies. High employee turnover rate can hamper the accumulation of research and development capabilities. In addition, since both China and Taiwan are emphasizing the development of semiconductors, the competition for talents surfaces.
- Insufficient domestic R & D manpower makes recruitment a problem for companies.
- Competition and price war among domestic and foreign IC design companies have become increasingly fierce; the increasing pressure on product prices created operating pressure.
- The rise of IC design companies in mainland China: due to policy support in terms of funding or markets, the scale of operations continues to expand and pose a threat to Taiwan's IC design industry.

(6) Countermeasures:

- Grasp the evolution of market trends and develop appropriate strategies. 5G smart phone is about to be commercialized, which is a huge business opportunity worth developing. The introduction of dual-screen notebook products to the market and innovative approach brings room for growth; and there is the artificial intelligence (AI) era coming, the huge potential business will once again lead the prospects of the semiconductor industry. In order to respond to the development trend of the market, the Company still adheres to differentiation business strategy, such as capacitive biometric sensing IC, adding anti-spoof function, which can be applied to the smartphone and notebook computer industry and enter a brand-new financial industry targeting credit cards, debit cards, and personal social security cards. All product developments are aiming at application products such as smartphones, notebooks and tablets, while seeking new application areas to develop the market. At the same time, the Company is actively investing in the field of artificial intelligence (AI) in order to improve its future product development, effectively enhance the added value of its IC products, strengthen its competitiveness, and further drive its operation and innovation.
- Flexible business strategies: modularized, single-chip or chipset methods of sales are available. Among them, the modularized sales model can enhance closer collaboration with system manufacturers, establish competition threshold, and access to the earliest market information, which is favorable in gaining purchase orders.
- Continuous recruit specialized R & D talents, implement localization strategies, increase overall engineering manpower, reduce related operating costs, build the strength of R & D teams, and achieve the goal of shortening product development timelines.
- Expanding the market through strategic alliances with domestic and foreign peers or related players to accelerate revenue and profit growth.
- Build marketing channels, expand marketing outlets at home and abroad, and actively develop new customers.
- Understand the market development trends, understand the needs of end-users and consumers, and respond to their needs in order to achieve the goal of profit growth; strengthen the application of products, and enrich the service mechanism of the application engineering manpower so that the Company can coexist and prosper with customers.

(2) Important uses and production processes of the major products:

(1) Important uses of the major products

At present, the company has two major product categories and five product lines. The two product categories are touch control and non-touch

control. The touch control category includes touch screen ICs, touch pad module, and biometric ICs. The non-touch control category includes MCU and a pointing stick. All related production processes are carried out by the Company from IC design, to outsourcing the photomask company to make the photomask, to transfer to the wafer factory for the various fabrication (such as exposure to UV-light, etching, etc.), to perform wafer testing and packaging testing before ship to the customer for production. All production time varies according to various required IC functions, precision, etc.

A、 Application products in touch control category:

Application products in touch control category include touch screen IC and touch module products, which are the key source of income of the Company in 2018 and will still be the key source of income in 2019. It is divided into two categories and one of them is the touch screen ICs, and its major application products include smart phones, tablet computers and notebook computers, e-books, and AIO. PC, etc.

B、 Touch Pad module:

Mainly used on notebook PCs.

C、 Biometric ICs:

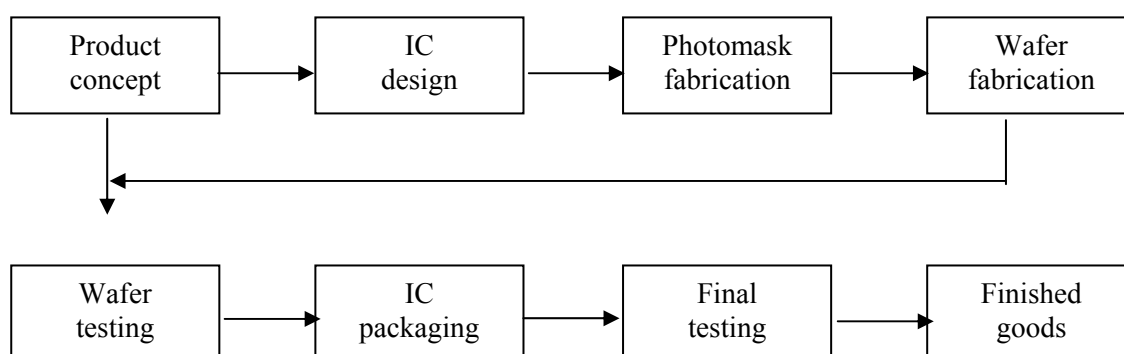
In 2019, there is still frequent price war for biometric ICs due to fierce competition in the mobile phone market, thus, the focus is profit-oriented. Notebook is a large application, which accounts for more than half of the revenue. The development of biometric screen solution will continue, and the effort in the smart phone market will continue. Since the scope of biometric IC application is very broad, covering smart phones, notebooks, tablets, smart cards, PC peripherals, etc., seeking a profitable application industry with bright development prospects is the focus of efforts in the future.

D、 MCU IC:

The main core technologies of the Company's MCU IC products include: 8-bit RISC processor and 16-bit MCU with DSP computing function and development platform, which are mainly used in small and large home appliances, security systems, and communications peripherals such as chargers, high-end interactive toys, mobile phones, electronic dictionaries, language learning machines, optical mice, keyboard control ICs and other markets. MCU has been dominated by foreign IC manufacturers. The product lines developed by the Company are competitively priced, and the development tools such as OTP, MTP, and ICE are quite complete, allowing the customers to quickly market their products and achieve "Time to Market" requirements. In the future, more engineering talents will be recruited, and the Company will seek collaboration with more solution companies to provide customers with overall solutions and achieve a customer-corporation-consumer win-win-win situation.

E、 Pointing stick products: high noise-cancelling, anti-RFI pointing stick sensor IC were gradually completed for notebook computers. In 2020, a new American notebook branding customer will be added to build a more complete customer structure.

(2) production processes



(3) Supply of major raw materials:

The Company's main raw materials are wafers and photomasks. The Company's main collaborating professional wafer foundries are Magnachip, UMC, and Macronix, which have excellent quality, process nodes technology and on-time delivery. In addition, in the photomask part, the main collaboration partners are Taiwan Mask and TCE, which are all long-term cooperative manufacturers with no concern in supply shortage or interruption.

(4) List of major suppliers and customers

(1) List of major customers (account for more than 10% of sales revenue)

Information on Major Customers in the Past 2 Years (consolidated basis)

Unit: NT\$'000

No.	2018				2019				As of the previous quarter of 2020 (Note 2)			
	Name	Amount	Proportion to net sales revenue of the year (%)	Relationship with the issuer	Name	Amount	Proportion to net sales revenue of the year (%)	Relationship with the issuer	Name	Amount	Proportion to net sales revenue of the year as of the previous quarter of 2019 (%)	Relationship with the issuer
1	Ultra Source	3,021,462	34.92	non-related parties	Ultra Source	3,596,183	37.90	non-related parties	Ultra Source	963,949	43.69	non-related parties
2	Silicon Application	1,944,270	22.47	non-related parties	Silicon Application	2,060,701	21.72	non-related parties	Silicon Application	319,298	14.47	non-related parties
	other	3,685,600	42.61		other	3,831,093	40.38		other	922,994	41.84	
	net sales revenue	8,651,332	100.00		net sales revenue	9,487,977	100.00		net sales revenue	2,206,241	100	

Note 1: Specify the name, sales amount and proportion to sales revenue of the customer whose sales amount accounted for more than 10% of the total sales revenue in the past two years. If the customer name cannot be disclosed due to the contractual agreement or the transaction counterparty is a non-related individual, a code can be used in lieu thereof.

Note 2: As of the date of publishing the annual reports, listed company or company of which stocks have been traded at the securities firm shall disclose the most recent financial information certified by CPA.

(2) List of major suppliers (account for more than 10% of purchase amount)

Information on Major Suppliers in the Past 2 Years (consolidated basis)

Unit: NT\$'000

No.	2018 (Note 3)				2019 (Note 3)				As of the previous quarter of 2020 (Note 2, Note 3)			
	name	amount	Proportion to net purchase amount of the year (%)	relationship with the issuer	name	amount	Proportion to net purchase amount of the year (%)	relationship with the issuer	name	amount	Proportion to net purchase amount as of the previous quarter of the year (%)	relationship with the issuer
1	Lien Hwa	879,358	21.65	non-related parties	Lien Hwa	1,217,805	26.41	non-related parties	Lien Hwa	320,698	28.77	non-related parties
2	TPT	509,607	12.55	non-related parties	TPT	576,201	12.50	non-related parties	TPT	107,088	9.61	non-related parties
	other	2,672,988	65.80		other	2,816,875	61.09		other	686,953	61.62	
	Net purchase amount	4,061,953	100		Net purchase amount	4,610,881	100		Net purchase amount	1,114,739	100	

Note 1: Specify the name, purchase amount and proportion to total purchase amount of the supplier whose purchase amount accounted for more than 10% of the total purchase amount in the past two years. If the supplier's name cannot be disclosed due to the contractual agreement or the transaction counterparty is a non-related individual, a code can be used in lieu thereof.

Note 2: As of the date of publishing the annual reports, listed company or company of which stocks have been traded at the securities firm shall disclose the most recent financial information certified by CPA.

Note 3: Including finished goods purchased.

(5) Schedule of production and sales value for the past 2 years

1. Schedule of production value (consolidated basis):

Unit: '000pcs, NT\$'000

Major products	Year	2018			2019		
	Production value	Production capacity	Output	Output value	Production capacity	Output	Output value
Consumer touch control IC	—	—	498,751	2,054,952	—	562,169	2,324,614
Notebook input devices module	—	—	161,299	3,844,279	—	200,134	4,464,770
Network communication IC	—	—	527	73,382	—	593	81,225
Image process IC	—	—	728	41,003	—	536	37,570
Safety monitoring module	—	—	3	6,426	—	3	5,138
Total	—	—	661,308	6,020,042	—	763,435	6,913,317

2. Schedule of production and sales value (consolidated basis):

Unit: '000pcs, NT\$'000

Year Main products		2018				2019			
		Domestic sales		Export		Domestic sales		Export	
		Sales volume	Sales value	Sales volume	Sales value	Sales volume	Sales value	Sales volume	Sales value
Consumer touch control IC		153,493	905,257	279,562	2,016,103	170,388	767,164	252,984	2,315,152
Notebook input devices module		974	70,134	78,295	5,446,095	1,109	80,833	92,367	6,147,163
Network communication IC		157	35,054	109	73,508	144	59,963	77	28,121
image process IC		471	57,835	62	6,726	387	44,352	73	7,441
Safety monitoring module		2	39,550	2	1,070	1	35,678	2	2,110
Total		155,097	1,107,830	358,030	7,543,502	172,029	987,990	345,503	8,499,987

3. Basic Human Resources information

Consolidated number of employees, average years of service, age and academic distribution ratio for the past two years:

Year		2018	2019	March 31, 2020
Number of employees	Managers	202	214	211
	Technician	309	340	339
	General staff	679	669	710
	Total	1,190	1,223	1,270
Average age		35.9	36.0	36.3
Average years of service		7.1 years	9.5 years	10.2 years
Academic distribution ratio	Ph.D.	1.1%	1.1%	1.3%
	Master	42.6%	41.5%	42.0%
	Bachelor	34.4%	33.0%	33.2%
	High school	7.8%	7.7%	7.5%
	Below high school	14.1%	16.7%	16.0%

4. Environmental Protection Expenditures

The Company has always attached great importance to environmental protection; its pollution prevention performance is good, and there was no sanction received due to environmental pollution and violation.

(1) The losses incurred due to environmental pollution (including compensation and environmental protection audit results that indicate violation of the environmental protection laws and regulations, and the date of prosecution, prosecution number, provision of law violated, content of the provision of law violated, and content of the prosecution thereof) during the last fiscal year and until the publishing date of the annual report, and disclose the amount and countermeasures that might incur at present and in the future. If it cannot be reasonably estimated, please explain why it cannot be reasonably estimated: N/A.

(2) Work environment and employee personal safety protection measures:

The Company's working environment is excellent and is the only integrated circuit (IC) design company that has won the Distinguished Green Landscaping Award of Hsinchu Science Park Bureau for 15 consecutive years. In addition, the Company has always attached importance to matters concerning employees' health and safety, such as:

1. Employee health checkups;
2. Established Safety & Health Office and medical room for labor safety health education and environmental protection management;
3. Invite lecture with expertise to hold several health promotion seminars;
4. Hire professional medical practitioners to the Company on monthly basis to perform on-site health services and provide health advice to the employees;
5. Hold safety and health training every six months;
6. Hold weight loss classes and weight loss competitions to promote employee health;
7. Drinking water quality testing;
- 8.. The Company commissions professional manufacturers to overhaul and report fire fighting facilities on yearly basis;
9. Conduct employees' firefighting training every six months.
10. Conduct CO₂ measurement for the workplace environment every six months to safeguard employee health;
11. Obtained ISO 14001 Environmental System Certification. Environmental policies: prevention of pollution, company-wide full participation, commitment to environmental protection, continuous improvement;
12. The Corporate Social Responsibility Report has been introduced since 2014; the greenhouse gases inspections was commenced since 2014; and a KPI performance indicator of at least 1% in energy conservation and carbon reduction per year was set;
13. Obtained OHSAS 18001 Occupational Safety and Health Management System certification in May 2016. In 2018, the Company began to promote the latest occupational safety and health management system ISO 45001 and is expected to be certified in 2019.
14. In 2018, the Company participated in the prize issued by the Health Promotion Administration of the Ministry of Health and Welfare and won the "Gender-Friendly Health Award".
15. In 2019, the Company participated in the healthy workplace selection held by the Health Promotion Administration of the Ministry of Health and Welfare

and won the “Creative Healthy Workplace Award”.

5. Labor Relations

The Company’s labor relations are harmonious and there was no major loss due to labor disputes.

(1) Current important employer-employee agreement and its implementation status

1. Employee benefit measures

- (1) In addition to the canteen, exercise area, fitness equipment area and medical room facilities established by the Company, employees also enjoy health insurance, group insurance, pension benefits, regular health checkups, and health management services provided by professional medical personnel. In addition, the benefits provided by the Company also include: bonuses of the year, employees’ compensation, club activities subsidy, New Year gift certificates, etc.
- (2) The Company has established the Employee Welfare Committee pursuant to laws and selected the Welfare Committee to handle employee welfare issues. The source of its benefits is 1% capital contribution at the time of establishment and 0.5% and 0.12% contributed from monthly salary and revenue, respectively. The Welfare Committee is responsible in setting annual plan and budget, holding Welfare Committee meetings on a regular basis to discuss, resolve and organize various welfare activities, and to disclose the income and expenses of the welfare funds. The welfare provided by the Welfare Committee include: birthday gifts, travel subsidies, wedding subsidies, funeral subsidies and maternity subsidies.

2. Employee education and training

In order to enrich the knowledge and skills of our staff members and enhance their morale and quality, the Company has set up a dedicated unit to plan the training for all staff members and provide external training opportunities in accordance with their professionalism, in order to combine the growth of staff members with the development of the Company to create a joint corporate vision.

(1) Internal trainings:

The Training Unit is responsible for planning annual training courses; training courses that are professional in nature will be organized by each department and co-organized by the Training Unit. In addition, the Company has established e-learning and know-how management system on the Company's internal website to effectively pass down professional know-how.

(2) External trainings:

Staff members shall apply for the course of which the materials was collected by the Training Unit and various departments, and proceed with the registration and payment procedures at the HR Department upon the supervisor’s approval.

(3) Newcomer trainings:

Responsible by the HR Department and Public Resources Department, to ensure the newcomers understand and get familiar with the Company's organizational profile, personnel regulations, quality

policies, industrial safety and health, people and the environment. There is a Guide system to lead the newcomers to mingle with the team as soon as possible.

- (4) On-job training:
Responsible by each department.
- (5) Safety and health training: Regularly organize safety fire drills, earthquake escape and other related courses to protect employees' safety and health.
- (6) Interlibrary Cooperation: Cooperation with SOC, ITRI, Jiaotong University and many other institutions
- (7) Consolidated employee training and training execution status of the Company of the last fiscal year (2019)

Unit: NT\$ / number of person / hour

Items	Expenses	Number of persons	Hours
Technology and R & D category	122,860	166	18,125
Management category	332,890	1,146	663
Production and QA	8,800	1,392	264
Total	464,550	2,704	19,052

- (6) Certificate(s) obtained by the chief finance, accounting and auditing officers:

Job title	Name	Date	Certificate name	Certificate no.
Chief auditor	CHUNG,I-MEI	March 2006	Internal Auditor of The Institute of Internal Auditors-Chinese Taiwan	(Zheng)-9420032

3. Pension system

- (1) Pension fund contribution:
 - A. The Company has formulated an employee retirement plan and established a Retirement Reserve Supervision Committee. The Company contributes 2% of the monthly salary to the retirement reserve funds pursuant to the "Regulations for the Allocation and Management of the Workers' Retirement Reserve Funds" and deposits in the Retirement Reserve Account at Taiwan bank.
 - B. The Company, pursuant to the Labor Pension Act, also deposits the 6% contribution from monthly salary of those employees who are eligible for pension as identified by the Labor Pension Act to each individual pension account.
- (2) Pension system:
 - A. Mandatory retirement:
 - a. Those who reached the age of 65; or
 - b. Those who suffer from the loss of mind or physical disability and unfit to work.
 - B. Volunteer retirement:
 - a. Those who have served over 25 years; or
 - b. Those who have served over 15 years and reached the age of 55; or
 - c. Those who have served over 10 years and reached the age of 60.

- C. Base point: average salary of the last 6 months prior to the retirement.
- (3) Retirement benefits: For those who have reached the years of serve applicable for pension pursuant to the Labor Standards Act shall receive 2 base points for each full year; for who have served for more than 15 years shall receive additional 1 base point for each full year; the total number of base points is limited to 45 points.
4. Agreements between employee / employer and the safeguarding of employees' rights and interests

The Company has not established a written agreement with the employee. Employees can freely express various advises for the Company through the quarterly employee-employer meeting, employee suggestion boxes, e-mail, internal network systems, etc.; the Manpower Performance Management Department gathers opinions from employees and distributes them, based on their opinions, to the responsible units for reply, and be processed pursuant to Employees' Code of Work after reporting to the President; the protection of the rights and interests of employees are subject to the Employees' Code of Work and the relevant regulations of the competent authorities.

- (2) The losses incurred due to industrial dispute (including labor inspection results that indicate violation of the Labor Standards Act, and the date of prosecution, prosecution number, provision of law violated, content of the provision of law violated, and content of the prosecution thereof) during the last fiscal year and until the publishing date of the annual report, and disclose the amount and countermeasures that might incur at present and in the future. If it cannot be reasonably estimated, please explain why it cannot be reasonably estimated: N/A.

6. Important Contracts

Contractual nature	Party	Contract commence and ending date	Main contents	Limitations
Technology licensing	Peripheral Imaging Corp.	Jan. 1, 2002 ~ termination called by either party	Product Development & Licence Agreement	N/A
Technology licensing	Cybernetic	Jan. 1, 2005	LRC & HASC & ESAC	N/A
Technology licensing	Synatics	Oct. 19, 2008 ~	Settlement and Cross -Linense Agreement	N/A
Technology licensing	Apple	Jan. 3, 2012 ~	SETTLEMENT AND LICENSE AGREEMENT	N/A
Technology licensing	Startek	Jul. 30, 2014 ~	Software license agreement	N/A
Technology licensing	Finger Pro.	May 1, 2014 ~	Software License For Evaluation	N/A
Technology licensing	NEC Corporation	Nov. 30, 2012 ~	Software License For Evaluation	N/A
Technology licensing	Precise Biometrics AB	Jul. 13, 2019 ~ July 12, 2020	Software Business Agreement	N/A
Technology licensing	ARM	Dec. 28, 2018 ~ Dec. 27, 2021	Technology License Agreement Cortex-M0+	N/A
Technology licensing	ARM	Dec. 30, 2018 ~	ARM coxtex-M4 perpetual license	N/A
Cooperative licensing	Chengdu Finchos Electronics Co., Ltd.	Aug. 22, 2016 ~	Cooperative Contract for Fingerprint Algorithm	N/A

Cooperative licensing	Chengdu Finchos Electronics Co., Ltd.	Jan. 4, 2017	Supplementary Cooperative Contract for Fingerprint Algorithm	N/A
Technology licensing and development	Taluko holdings SAS	Jun. 4, 2016 ~	LICENSING AND DEVELOPMENT COLLABORATION AGREEMENT	N/A
Technology licensing	NXP	Oct. 1, 2017	NON-EXCLUSIVE TECHNOLOGY LICENSE AGREEMENT	N/A
Development service	NXP	Oct. 1, 2017	SERVICES AGREEMENT	N/A
Commissioned development	National Taiwan University of Science and Technology	Dec. 1, 2010 ~ termination date of the rights and obligation	Industry-Academy Cooperative Contract	N/A
Commissioned development	Industrial Technology Research	Dec. 1, 2013 ~ Feb. 28, 2024	Commissioned Service and Licensing Contract	N/A
Commissioned development	Intel	Sep. 18, 2014	Software Development, Support and Demonstration Agreement	N/A
Commissioned development	Altptech	May 18, 2017	Commissioned Software Development Contract	N/A

VI. Financial Information

1. Last Five Fiscal Years' Financial Summary

(1) Concise Balance Sheet and Income Statement

1. Concise Balance Sheet - Consolidated Financial Statements

Unit: NT\$'000

Item \ Year	Financial information of the last five years					Financial information as of March 31, 2020 (Note 3)
	2015	2016	2017	2018	2019	
Current assets	7,038,751	7,015,408	7,953,564	7,447,785	8,006,975	8,460,869
Property, plants and equipments (Note 2)	612,066	581,444	580,010	767,874	760,537	787,063
Intangible assets	290,523	250,519	256,273	225,319	304,219	366,424
Other assets (Note 2)	41,669	47,075	54,739	55,439	271,869	264,696
Total assets	9,284,645	9,131,230	10,142,805	9,803,147	11,246,892	11,220,907
Current liabilities						
Pre-distribution	1,682,957	1,789,056	2,410,414	2,828,645	3,057,941	2,625,890
Post-distribution	2,565,247	2,470,616	3,530,430	4,348,047	Note 4	Note 4
Non-current liabilities	510,525	446,032	408,928	391,744	585,799	625,385
Total liabilities						
Pre-distribution	2,193,482	2,235,088	2,819,342	3,220,389	3,643,740	3,251,275
Post-distribution	3,075,772	2,916,648	3,939,358	4,739,791	Note 4	Note 4
Equity attributable to owner(s) of the parent company	7,099,955	6,899,178	7,356,477	6,627,180	7,668,931	7,713,801
Capital stock	4,411,448	4,341,148	4,341,148	3,038,804	3,038,804	3,038,804
Capital surplus	976,488	735,781	536,328	444,033	375,945	439,011
Reserved surplus						
Pre-distribution	1,961,910	1,745,995	2,422,333	3,005,648	4,153,247	4,207,080
Post-distribution	1,264,901	1,312,748	1,423,869	1,592,604	Note 4	Note 4
Other equity	221,247	177,522	147,779	172,023	129,910	57,881
Treasury shares	471,138	101,268	91,111	33,328	28,975	28,975
Non-controlling interest	(8,792)	(3,036)	(33,014)	(44,422)	(65,779)	255,831
Total equity						
Pre-distribution	7,091,163	6,896,142	7,323,463	6,582,758	7,603,152	7,969,632
Post-distribution	6,208,873	6,214,582	6,203,447	5,063,356	Note 4	Note 4

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: If there is asset revaluation, the revaluation date and revaluation surplus shall be listed.

Note 3: Q1 / 2020 financial information certified by the Accountant.

Note 4: As of the reporting date, profit distribution has not yet been resolved by the 2019 shareholders' meeting.

Note 5: On 1 January 2015, adopted the effective International Financial Reporting Standards: 2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated the 2013 and 2014 Consolidated Balance Sheets. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate consolidated balance sheets issued before the year of 2017. IFRS 16 was adopted on January 1, 2019 without retroactively restate consolidated balance sheets issued before the year of 2018.

2. Concise Comprehensive Income Statement - Consolidated Financial Statements

Unit: NT\$'000

Item \ Year	Financial information of the last five years					Financial information as of March 31, 2020 (Note 3)
	2015	2016	2017	2018	2019	
Business revenues	6,605,099	6,558,933	7,503,267	8,651,332	9,487,977	2,206,241
Gross income	2,813,686	2,708,170	3,347,820	3,944,177	4,416,688	1,042,818
Income (loss)	848,884	752,415	1,349,782	1,730,288	2,081,426	513,826
Non-operating income and expenses	62,826	(27,525)	(87,521)	139,780	728,234	(444,759)
Net profit before tax	911,710	724,890	1,262,261	1,870,068	2,809,660	69,070
Net going concern profit of the period	738,946	580,001	1,032,110	1,531,702	2,464,742	43,771
Loss from discontinuing operation	0	0	0	0	0	0
net income / (loss)	738,946	580,001	1,032,110	1,531,702	2,464,742	43,771
Other comprehensive income (loss) (post-tax) of the period	(15,316)	2,526	6,211	29,148	29,792	(72,029)
Total comprehensive income (loss) of the period	723,630	582,527	1,038,321	1,560,850	2,494,534	(28,258)

Net profit attributable to owner(s) of the parent company	824,777	652,667	1,073,802	1,559,580	2,496,744	53,833
Net profit attributable to non-controlling interest	(85,831)	(72,666)	(41,692)	(27,878)	(32,002)	(10,062)
Total comprehensive income (loss) attributable to owner(s) of the parent company	809,408	655,414	1,079,841	1,588,903	2,526,686	(18,196)
Total comprehensive income (loss) attributable to non-controlling interest	(85,778)	(72,887)	(41,520)	(28,053)	(32,152)	(10,062)
Earnings per share	1.98	1.57	2.58	4.16	8.57	0.18

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: Q1 / 2020 financial information certified by the Accountant.

Note 3: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and the 2014 Consolidated Income Statement has retroactively restated. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate Consolidated Income Statement issued before the year of 2017. IFRS 16 was adopted on January 1, 2019 without retroactively restate Consolidated Income Statement issued before the year of 2018.

3. Concise Balance Sheet - Individual Financial Statements

Unit: NT\$'000

Item	Year	Financial information of the last five years				
		2015	2016	2017	2018	2019
Current assets		6,588,344	6,470,853	7,341,632	6,620,611	7,020,098
Property, plants and equipments (Note 2)		598,560	567,880	572,376	761,937	755,686
Intangible assets		253,764	217,847	230,104	202,743	223,170
Other assets (Note 2)		24,886	28,169	79,247	58,722	225,662
Total assets		9,072,585	8,916,171	9,886,202	9,517,947	10,903,241
Current liabilities	Pre-distribution	1,470,222	1,579,121	2,126,747	2,505,043	2,673,761
	Post-distribution	2,352,512	2,260,681	3,246,763	4,024,445	Note 3
Non-current liabilities		502,408	437,872	402,978	385,724	560,549
Total liabilities	Pre-distribution	1,972,630	2,016,993	2,529,725	2,890,767	3,234,310
	Post-distribution	2,854,920	2,698,553	3,649,741	4,410,169	Note 3
Equity attributable to owner(s) of the parent company		7,099,955	6,899,178	7,356,477	6,627,180	7,668,931
Capital stock		4,411,448	4,341,148	4,341,148	3,038,804	3,038,804
Capital surplus		976,488	735,781	536,328	444,033	375,945
Reserved surplus	Pre-distribution	1,961,910	1,745,995	2,422,333	3,005,648	4,153,247
	Post-distribution	1,264,901	1,312,748	1,423,869	1,592,604	Note 3
Other equity		221,247	177,522	147,779	172,023	129,910
Treasury shares		471,138	101,268	91,111	33,328	28,975
Non-controlling interest		-	-	-	-	-
Total equity	Pre-distribution	7,099,955	6,899,178	7,356,477	6,627,180	7,668,931
	Post-distribution	6,217,665	6,217,618	6,236,461	5,107,778	Note 3

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: If there is asset revaluation, the revaluation date and revaluation surplus shall be listed.

Note 4: As of the reporting date, profit distribution has not yet been resolved by the 2019 shareholders' meeting.

Note 5: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated the 2013 and 2014 Consolidated Balance Sheets. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate consolidated balance sheets issued before the year of 2017. IFRS 16 was adopted on January 1, 2019 without retroactively restate consolidated balance sheets issued before the year of 2018.

4. Concise Comprehensive Income Statement - Individual Financial Statements

Unit: NT\$'000

Item \ Year	Financial information of the last five years				
	2015	2016	2017	2018	2019
Business revenues	6,455,625	6,428,211	7,341,164	8,432,996	9,309,465
Gross income	2,769,101	2,690,167	3,307,355	3,858,659	4,356,033
Income (loss)	1,101,905	1,001,819	1,463,417	1,769,576	2,137,455
Non-operating income and expenses	(109,433)	(209,533)	(167,090)	115,093	697,727
Net profit before tax	992,472	792,286	1,296,327	1,884,669	2,835,182
Net going concern profit of the period	824,777	652,667	1,073,802	1,559,580	2,496,744
Loss from discontinuing operation	0	0	0	0	0
Net income / (loss)	824,777	652,667	1,073,802	1,559,580	2,496,744
Other comprehensive income (loss) (post-tax) of the period	(15,369)	2,747	6,039	29,323	29,942
Total comprehensive income (loss) of the period	809,408	655,414	1,079,841	1,588,903	2,526,686
Net profit attributable to owner(s) of the parent company	824,777	652,667	1,073,802	1,559,580	2,496,744
Net profit attributable to non-controlling interest	-	-	-	-	-
Total comprehensive income (loss) attributable to owner(s) of the parent company	809,408	655,414	1,079,841	1,588,903	2,528,004
Total comprehensive income (loss) attributable to non-controlling interest	-	-	-	-	-
Earnings per share	1.98	1.57	2.58	4.16	8.57

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and the 2014 Consolidated Income Statement has retroactively restated. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate Consolidated Income Statement issued before the year of 2017. IFRS 16 was adopted on January 1, 2019 without retroactively restate Consolidated Income Statement issued before the year of 2018.

(2) Concise Balance Sheet and Income Statement - Taiwan's Financial Accounting Standards

1. Concise Balance Sheet - Taiwan's Financial Accounting Standards: The Company has adopted International Financial Reporting Standards in preparing financial information for five years; therefore, the Company will not prepare separate financial information base on Taiwan's Financial Accounting Standards.
2. Concise Income Statement - Taiwan's Financial Accounting Standards: The Company has adopted International Financial Reporting Standards in preparing financial information for five years; therefore, the Company will not prepare separate financial information base on Taiwan's Financial Accounting Standards.
3. Names and audit opinions of the Certified Public Accountants in the last 5 years:

Year	Name of the firm	Certified Public Accountant	Audit opinions
2015	KPMG	CHOU, PAO-LIEN; GAU, WEI-CHUAN	Revised unqualified opinion
2016	KPMG	CHOU, PAO-LIEN; GAU, WEI-CHUAN	Unqualified opinion
2017	KPMG	GAU, WEI-CHUAN, TSENG, MEI-YU	Unqualified opinion
2018	KPMG	TSENG, MEI-YU, GAU, WEI-CHUAN	Unqualified opinion
2019	KPMG	CHOU, PAO-LIEN; TSENG, MEI-YU	Unqualified opinion

2. Last Five Fiscal Years' Financial Analysis

(1) Financial analysis - consolidated

Year (Note 1) Item (Note 3)		Financial analysis for the last five years					As of March 31, 2020 (Note 2)
		2015	2016	2017	2018	2019	
Financial structure (%)	Debt to assets ratio	23.62	24.48	27.80	32.85	32.40	28.98
	Long-term capital to property, plant and equipment ratio	1,241.97	1,262.75	1,333.15	908.29	1,076.73	1,092.04
Solvency ratios %	Current ratio	418.24	392.13	329.97	263.30	261.84	322.21
	Liquidity ratio	346.39	331.58	279.39	221.07	215.86	263.36
	Interest protection multiples	758.86	339.58	300.61	403.08	297.78	35.64
Operating capacities	Receivables turnover ratio (times)	5.71	5.87	6.99	8.09	8.00	6.92
	Average collection period	64	62	52	45	46	53
	Inventory turnover ratio (times)	2.74	2.88	3.00	3.29	3.27	2.58
	Accounts payable turnover ratio (times)	4.61	4.61	4.81	5.03	4.73	4.30
	Days sales of inventory	133	127	122	111	112	141
	Property, plants and equipments turnover ratio (times)	10.23	10.99	12.92	12.84	12.42	11.40
	Total assets turnover ratio (times)	0.68	0.71	0.78	0.87	0.90	0.79
Profitability	Return on asset (%)	7.61	6.32	10.75	15.40	23.49	1.62
	Return on equity (%)	9.88	8.29	14.52	22.03	34.75	2.25
	Profit before tax to capital stock (%) (Note 7)	20.67	16.70	29.08	61.54	92.46	9.09
	Net profit margin (%)	11.19	8.84	13.76	17.70	25.98	1.98
	Earnings per share (NT\$)	1.98	1.57	2.58	4.16	8.57	0.18
Cash Flow	Cash flow ratio (%)	47.86	54.19	60.69	64.18	54.91	77.26
	Cash flow adequacy ratio (%)	83.61	87.57	99.04	102.01	100.35	120.53
	Cash reinvestment ratio (%)	-8.85	1.45	9.09	9.07	2.35	20.48
Leverage	Operating leverage	7.07	8.09	4.85	4.30	3.87	3.43
	Financial leverage	1	1	1	1	1	1

Explain the reasons for changes in financial ratios in the past two years (when the rate of change exceeds 20%):

1. Solvency ratios:

Since the adoption of IFRS 16 in 2019, the interest expenses incurred due to capitalized lease amortization has increased, causing the 2019 interest protection multiples decreased from that of in 2018.

2. Profitability:

The increased sales revenue and gross sales margin in 2019 from that of in 2018 and the increased non-operating profit in 2019 from that of in 2018, caused the profitability related indicators in 2019 to be higher than that of in 2018.

3. Cashflow:

Due to higher cash dividends paid in 2019 and book value of long-term investments increased upon appraisal, the 2019 cash reinvestment ratio decreased from that of in 2018.

(2) Financial analysis - individual

Year (Note 1) Item (Note 3)		Financial analysis for the last five years				
		2015	2016	2017	2018	2019
Financial structure (%)	Debt to assets ratio	21.74	22.62	25.59	30.37	29.66
	Long-term capital to property, plant and equipment ratio	1,270.11	1,292.01	1,355.66	920.40	1,089.01
Solvency ratios %	Current ratio	448.12	409.78	345.20	264.29	262.56
	Liquidity ratio	372.74	346.97	294.82	221.26	212.73
	Interest protection multiples	註3	49,519	162,042	235,585	924.51
Operating capacities	Receivables turnover ratio (times)	5.61	6.03	7.30	8.40	8.26
	Average collection period	65	61	50	43	44
	Inventory turnover ratio (times)	2.88	3.04	3.16	3.46	3.42
	Accounts payable turnover ratio (times)	4.53	4.55	4.72	4.94	4.66
	Days sales of inventory	127	120	116	105	107
	Property, plants and equipments turnover ratio (times)	10.24	11.02	12.88	12.64	12.27
	Total assets turnover ratio (times)	0.68	0.71	0.78	0.87	0.91
Profitability	Return on asset (%)	8.64	7.26	11.42	16.07	24.48
	Return on equity (%)	11.06	9.32	15.06	22.31	34.93
	Profit before tax to capital stock (%) (Note 7)	22.50	18.25	29.86	62.02	93.30
	Net profit margin (%)	12.78	10.15	14.63	18.49	26.82
	Earnings per share (NT\$)	1.98	1.57	2.58	4.16	8.57
Cash Flow	Cash flow ratio (%)	73.70	81.22	76.70	73.95	60.41
	Cash flow adequacy ratio (%)	101.74	106.77	116.80	116.46	109.05
	Cash reinvestment ratio (%)	-5.85	4.77	10.73	9.00	1.02
Leverage	Operating leverage	4.19	4.68	4.18	3.63	3.28
	Financial leverage	1	1	1	1	1

Explain the reasons for changes in financial ratios in the past two years (when the rate of change exceeds 20%):

1. Solvency ratios:

Since the adoption of IFRS 16 in 2019, the interest expenses incurred due to capitalized lease amortization has increased, causing the 2019 interest protection multiples decreased from that of in 2018.

2. Profitability:

The increased sales revenue and gross sales margin in 2019 from that of in 2018 and the increased non-operating profit in 2019 from that of in 2018, caused the profitability related indicators in 2019 to be higher than that of in 2018.

3. Cashflow:

Due to higher cash dividends paid in 2019 and book value of long-term investments increased upon appraisal, the 2019 cash reinvestment ratio decreased from that of in 2018.

- Note 1: Financial information of the above-listed years has been certified by the Accountant.
- Note 2: Q1 / 2020 financial information certified by the Accountant.
- Note 3: The interest expense in the year 2013 to 2015 Individual Financial Statements were all “0”, therefore, so the , interest protection multiples is infinite.
- Note 4: Financial ratio formula:
1. Financial structure
 - (1) Debt to assets ratio = total liabilities / total assets.
 - (2) Long-term capital to property, plant and equipment ratio = (total equity + non-current liabilities) / net property, plants and equipments.
 2. Solvency ratios
 - (1) Current ratio = current assets / current liabilities.
 - (2) Liquidity ratio = (current assets — inventory — prepaid expenses) / current liabilities.
 - (3) Interest protection multiples = earnings before interest and taxes / interest expenses of the period.
 3. Operating capacities
 - (1) Receivables (including accounts receivable and note receivable from business operations) turnover ratio = net sales revenue / average receivables (including accounts receivable and note receivable from business operations) balance of each period.
 - (2) Average collection period = 365 / receivables turnover ratio.
 - (3) Inventory turnover ratio = cost of goods sold / average inventory.
 - (4) Accounts payable (including accounts payable and note payable from business operations) turnover ratio = cost of goods sold / average accounts payable (including accounts payable and note payable from business operations) balance of each period.
 - (5) Days sales of inventory = 365 / inventory turnover ratio.
 - (6) Property, plants and equipments turnover ratio = net sales revenue / average net property, plants and equipments.
 - (7) Total assets turnover ratio = net sales revenue / average total assets.
 4. Profitability
 - (1) Return on asset = [post-tax profit or loss + interest expenses × (1 — tax rate)] / average total assets.
 - (2) Return on equity = post-tax profit or loss / average total equity.
 - (3) Net profit margin = post-tax profit or loss / net sales revenue
 - (4) Earnings per share = (profit or loss attributable to owner(s) of the parent company — preference share dividends) / weighted-average number of shares issued. (Note 4)
 5. Cash Flow
 - (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
 - (2) Net cash flow adequacy ratio = net cash flow from operating activities in the last 5 years / (capital expenditures + increase in inventory + cash dividends) in the last 5 years.
 - (3) Cash reinvestment ratio = (net cash flows from operating activities — cash dividends) / (gross property, plants and equipments + long-term investment + other non-current assets + working capital). (Note 5)
 6. Leverage
 - (1) Operating leverage = (net operating income — changes in operating costs and expenses) / operating profit (Note 6).
 - (2) Financial leverage = operating profit / (operating profit — interest expenses).
- Note 5: The calculation formula for the above-mentioned earnings per share shall be measured with the following precautions:
1. Shall be based on weighted-average number of common shares instead of number of shares issued as of the end of the year.
 2. Where there is capital addition or treasury share transaction, weighted-average number of shares shall be calculated after considering the circulation period.
 3. Where there is Retained Earnings Transferred To Capital or Capital Increase By Capital Surplus, when calculating the earnings per share for the previous year and mid-year, it shall be retrospectively adjusted according to the proportion of capital increase without considering the issuing period of the capital increase.
 4. If the preference share is a non-convertible cumulative preference share, its dividends (paid or not) of the year shall be subtracted from net profit after tax or added to net loss after tax. If the preference share is non-cumulative, the preference dividends shall be deducted from net profit after tax if there is a net profit after tax; if it is a loss, there is no need for adjustment.
- Note 6: The following precautions shall be paid when measuring cash flow analysis:
1. Net cash flow from operating activities referred to the net cash inflow from operating activities shown in the cash flow statement.
 2. Capital expenditure referred to the annual cash outflows for capital investment.
 3. The increase in inventory is only listed when the ending balance is greater than the beginning balance. If the inventory decreases at the end of the year, the increase in inventory will be regarded as zero.
 4. Cash dividends include cash dividends of common shares and preference shares.

5. Gross property, plants and equipments referred to the total property, plant and equipment before accumulated depreciation.

Note 7: The issuer shall classify various operating costs and operating expenses into fixed and variable categories. If estimation or subjective judgment are involved, the issuer shall pay attention to its rationality and maintain consistency.

Note 8: If the Company's shares have no face value or if the face value of each share is not NT\$10, the aforementioned calculation of ratio involving paid-in capital shall be calculated based on the equity ratio of the balance sheet attributable to the owner(s) of the parent company.

- (3) Financial analysis - Taiwan's Financial Accounting Standards: The Company has adopted International Financial Reporting Standards in preparing financial information for five years; therefore, the Company will not prepare separate financial information base on Taiwan's Financial Accounting Standards.

3. Audit Committee's Review Report

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2019 financial statements and consolidated financial statements, which was audited by Accountant CHOU, PAO-LIAN and TSENG, MEI-YU of Klynveld Peat Marwick Goerdeler (KPMG) who issued an audit report, together with business report and the profit distribution proposal for Audit Committee's review. The Audit Committee hereby confirmed that there are no discrepancies and reported as above pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and submitted for your kind approval.

ELAN Microelectronics Corporation

Convener of the Audit Committee:

Date: March 10, 2020

4. Financial Statements of the Last Fiscal Years

Independent Auditors' Report

To the Board of Directors

ELAN MICROELECTRONICS CORPORATION:

Opinion

We have audited the financial statements of ELAN MICROELECTRONICS CORPORATION (“the Company”), which comprise the statement of financial position as of December 31, 2019 and 2018, and the statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, base on our audits and the reports of other auditors (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 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.

Basis for Opinion

We conducted our audit in accordance with the “Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor’ s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Base on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Other Matter

We did not audit the financial statements of Top Taiwan X Venture Capital Co. Ltd which represented investment accounted for using the equity method of the Company. These statement was audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for Top Taiwan X Venture Capital Co. Ltd, is based solely on the report of another auditor. The investment in Top Taiwan X Venture Capital Co. Ltd accounted for using the equity method constituted 2.57% of the total assets at December 31, 2019, and the related share of profit of associates and joint ventures accounted for using the equity method constituted 1.77% of the total income before tax for the year ended December 31, 2019.

We did not audit the financial statements of Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, which represented investment accounted for using the equity method of the Company. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as they relate to the amounts included for Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, is based solely on the reports of other auditors. The investment in Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp accounted for using the equity method constituted 2.56% of the total assets at December 31, 2018, and the related share of profit of associates and joint ventures accounted for using the equity method constituted (0.87)% of the total income before tax for the year ended December 31, 2018.

Key Audit Matters

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

1. Valuation of inventories

Please refer to Notes 4(g) for accounting policy of inventory, Notes 5 for accounting estimations and assumption uncertainty of inventory valuation, and Notes 6(d) for the write-down of inventories to net realizable value.

Description of key audit matter:

The inventories are measured at the lower of cost and net realizable value. Due to the rapid changes in the economy and the environment, and the production technology update, the cost of inventories are in a risk that the inventory cost exceeds its net realizable value.

How the matter was addressed in our audit:

For valuation of the inventories, we reviewed the inventory aging reports, analyzed the inventory turnovers and changes in its aging inventory for each period to assess the reasonableness of the Company's inventory provision rate, evaluated the accounting policy rationality, understood the sales price adopted by the management evaluation, reviewed the sales status and evaluation which was based on the net realizable value used to assess the appropriateness of the Company management's estimation on inventory provision.

2. Revenue recognition

Please refer to Note 4(o) and 6(o) for accounting policy of revenue recognition.

Description of key audit matter:

The major business activities of the Company are the manufacture and sale of integrated circuits. The Company also offers research and development services with respect to the products presented above. Test of revenue recognition is one of the key audit matters in our audit. Revenue is the key performance indicator to evaluate the performance by the investors and management, and thus, needs significant attention in our audit.

How the matter was addressed in our audit:

We tested the effectiveness of the related controls surrounding revenue recognition, reviewed relevant sales documents to evaluate whether the revenue recognition is consistent with the accounting policy; performed trend analysis on the top ten customers and revenue by products, to assess significant exception, if any; tested the sales transactions before and after the end of the year and its relevant documents to evaluate the accuracy of the amount and period of the revenue recognized.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chou, Pao-Lian and Tseng, May-Yu.

KPMG

Taipei, Taiwan (Republic of China)

March 10, 2020

Notes to Readers

The accompanying parent company only financial statements are intended only to present the financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such parent company only financial statements are those generally accepted and applied in the Republic of China.

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

December 31, 2019 and 2018

<u>December 31, 2019</u>		<u>December 31, 2018</u>	
Amount	%	Amount	%

Liabilities and Equity

<u>December 31, 2019</u>		<u>December 31, 2018</u>	
Amount	%	Amount	%

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

ELAN MICROELECTRONICS CORPORATION**Statements of Comprehensive Income****For the years ended December 31, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)**

		2019		2018	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(o) and 7)	\$ 9,309,465	100	8,432,996	100
5000	Operating costs (notes 6(d) and 7)	4,957,908	53	4,574,425	54
5900	Gross profit from operations	4,351,557	47	3,858,571	46
5920	Add: Realized profit from sales	4,476	-	88	-
5950	Gross profits	4,356,033	47	3,858,659	46
6000	Operating expenses: (notes 6(c), (l) and 12)				
6100	Selling expenses	566,053	6	525,428	6
6200	Administrative expenses	255,447	3	230,654	3
6300	Research and development expenses	1,407,080	15	1,331,429	16
6450	Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	(10,002)	-	1,572	-
		2,218,578	24	2,089,083	25
6900	Operating income	2,137,455	23	1,769,576	21
7000	Non-operating income and expenses:				
7010	Other income (notes 6(p) and 7)	110,697	1	71,365	1
7020	Other gains and losses (notes 6(g) and (p))	(9,228)	-	(11,906)	-
7050	Finance costs	(3,070)	-	(8)	-
7590	Miscellaneous disbursements	(3,083)	-	(1,438)	-
7070	Share of gain of subsidiaries and associates accounted for using equity method (note 6(f))	602,411	6	57,080	1
		697,727	7	115,093	2
7900	Profit before tax	2,835,182	30	1,884,669	23
7950	Less: Income tax expenses (note 6(l))	338,438	4	325,089	4
	Net profit	2,496,744	26	1,559,580	19
8300	Other comprehensive income (loss):				
8310	Components of other comprehensive income (loss) that will not be reclassified to profit or loss				
8311	Gains on remeasurements of defined benefit plans	5,431	-	5,422	-
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	10,490	-	29,727	-
8330	Share of other comprehensive income of subsidiaries and associates accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	15,339	-	(5,667)	-
8349	Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		31,260	-	29,482	-
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(1,281)	-	400	-
8380	Share of other comprehensive income of subsidiaries and associates accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(37)	-	(559)	-
8399	Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	(1,318)	-	(159)	-
8300	Other comprehensive income, net	29,942	-	29,323	-
8500	Comprehensive income	\$ 2,526,686	26	1,588,903	19
	Earnings per share (expressed in dollars) (note 6(n))				
9710	Basic earnings per share	\$ 8.57		4.16	
9850	Diluted earnings per share	\$ 8.44		4.12	

See accompanying notes to financial statements.

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

ELAN MICROELECTRONICS CORPORATION**Statements of Changes in Equity****For the years ended December 31, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars)**

			Retained earnings		Total other equity interest		Treasury shares	Total equity
					Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income		
	Ordinary shares	Capital surplus	Legal reserve	Unappropriated retained earnings				
Balance at January 1, 2018	\$ 4,341,148	536,328	1,312,585	1,109,748	(4,060)	151,839	(91,111)	7,356,477
Effects of retrospective application	-	-	-	17,120	-	-	-	17,120
Balance at January 1, 2018 after adjustments	4,341,148	536,328	1,312,585	1,126,868	(4,060)	151,839	(91,111)	7,373,597
Net profit	-	-	-	1,559,580	-	-	-	1,559,580
Other comprehensive income	-	-	-	5,079	(159)	24,403	-	29,323
Total comprehensive income	-	-	-	1,564,659	(159)	24,403	-	1,588,903
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	107,380	(107,380)	-	-	-	-
Cash dividends of ordinary share	-	-	-	(998,464)	-	-	-	(998,464)
Other changes in capital surplus:								
Cash dividends from capital surplus	-	(121,552)	-	-	-	-	-	(121,552)
Capital reduction	(1,302,344)	-	-	-	-	-	52,812	(1,249,532)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	40,834	-	-	-	-	4,971	45,805
Changes in ownership interests in subsidiaries	-	(11,577)	-	-	-	-	-	(11,577)
Balance at December 31, 2018	3,038,804	444,033	1,419,965	1,585,683	(4,219)	176,242	(33,328)	6,627,180
Net profit	-	-	-	2,496,744	-	-	-	2,496,744
Other comprehensive income	-	-	-	5,118	(1,318)	26,142	-	29,942
Total comprehensive income	-	-	-	2,501,862	(1,318)	26,142	-	2,526,686
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	155,958	(155,958)	-	-	-	-
Cash dividends of ordinary share	-	-	-	(1,413,044)	-	-	-	(1,413,044)
Other changes in capital surplus:								
Cash dividends from capital surplus	-	(106,358)	-	-	-	-	-	(106,358)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	57,838	-	-	-	-	4,353	62,191
Changes in ownership interests in subsidiaries	-	(19,568)	-	(8,156)	-	-	-	(27,724)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	66,937	-	(66,937)	-	-
Balance at December 31, 2019	\$ 3,038,804	375,945	1,575,923	2,577,324	(5,537)	135,447	(28,975)	7,668,931

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

ELAN MICROELECTRONICS CORPORATION**Statements of Cash Flows****For the years ended December 31, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars)**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Profit before tax	\$ 2,835,182	1,884,669
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	59,847	43,962
Amortization expense	37,720	43,239
Expected credit loss (gain)	(10,002)	1,572
Net (loss) gain on financial assets at fair value through profit or loss	(20,142)	20,912
Interest expense	3,070	8
Interest income	(40,583)	(43,172)
Dividend income	(13,029)	(8,479)
Share of profit of subsidiaries and associates accounted for using equity method	(602,411)	(57,080)
Loss on disposal of property, plant and equipment	428	388
Impairment loss	-	25,808
Difference between net pension liability and actual appropriations	749	1,638
Impairment loss and disposal loss on inventory	110,809	89,337
Others	(4,489)	(87)
Total adjustments to reconcile profit	<u>(478,033)</u>	<u>118,046</u>
Changes in operating assets and liabilities:		
Increase in notes and accounts receivable (including related parties)	(89,030)	(168,867)
Increase in inventories	(355,521)	(96,524)
Decrease (increase) in prepayments and other current assets	(2,656)	34,872
Increase in other receivables	(167,843)	(123,391)
Increase in notes and accounts payable	205,632	71,077
Increase (decrease) in other current liabilities	<u>(54,856)</u>	<u>183,338</u>
Total adjustments	<u>(942,307)</u>	<u>18,551</u>
Cash inflow generated from operations	1,892,875	1,903,220
Interest received	40,605	43,499
Dividends received	14,421	8,489
Interest paid	(3,070)	(8)
Income taxes paid	<u>(329,687)</u>	<u>(218,944)</u>
Net cash flows from operating activities	<u>1,615,144</u>	<u>1,736,256</u>
Cash flows from (used in) investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	86,015	-
Acquisition of financial assets at fair value through profit or loss	(34,967)	(29,450)
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	51,338	48,065
Decrease in financial assets at fair value through profit or loss	14,511	116,168
Acquisition of investments accounted for using equity method	(78,343)	(97,732)
Increase in prepayments for investments	(170,000)	-
Proceeds from disposal of subsidiaries	22,908	-
Acquisition of property, plant and equipment	(50,262)	(240,084)
Decrease in refundable deposits	1,110	670
Acquisition of intangible assets	(58,147)	(15,878)
Decrease in other non-current assets	22,492	23,868
Decrease (increase) in time deposit with maturity longer than three months	<u>(554,800)</u>	<u>814,350</u>
Net cash flows from (used in) investing activities	<u>(748,145)</u>	<u>619,977</u>
Cash flows used in financing activities:		
Increase in guarantee deposits received	92	252
Payment of lease liabilities	(12,160)	-
Cash dividends paid	(1,519,402)	(1,120,016)
Capital reduction	<u>-</u>	<u>(1,302,344)</u>
Net cash flows used in financing activities	<u>(1,531,470)</u>	<u>(2,422,108)</u>
Net decrease in cash and cash equivalents	(664,471)	(65,875)
Cash and cash equivalents at the beginning of period	<u>1,685,150</u>	<u>1,751,025</u>
Cash and cash equivalents at the end of period	<u><u>\$ 1,020,679</u></u>	<u><u>1,685,150</u></u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

ELAN MICROELECTRONICS CORPORATION**Notes to the Financial Statements****For the years ended December 31, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)****(1) Company history**

Elan Microelectronics Corp. (the “Company”) was incorporated on May 5, 1994, under the approval of Ministry of Economic Affairs, Republic of China (“ROC”). The Company is located in the Hsinchu Science-based Industrial Park. The major business activities of the Company are the manufacture and sale of neural network and fuzzy processors, digital signal processors, 8-bit RISC micro-controllers, and integrated circuits for special use. The Company also offers research and development services with respect to the products presented above. The Company’s common shares were listed on the Taiwan Stock Exchange on September 17, 2001. Pursuant to the resolution of the shareholders’ meeting held on June 13, 2008, the Company acquired Elantech Devices Corp. (Elantech). The Company is the surviving company, and Elantech was dissolved after the acquisition, and the effective date of the acquisition was on October 1, 2008. Elantech was incorporated on September 18, 2003 as a company limited by shares under the laws of Taiwan, the Republic of China (ROC). Elantech was located in Zhonghe District, New Taipei City. The major business activities of Elantech were the research, manufacture, and sale of wireless and wired communication equipment and electronics modules.

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

The financial statements were authorized for issue by the Board of Directors on March 10, 2020.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

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

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

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

IFRS 16 “Leases”

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

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(k).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Company decided to apply recognition exemptions to short-term leases of machinery and leases of office equipment.

● Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee’s incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Company applied this approach.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Company recognised additional \$194,585 thousands of right-of-use assets and lease liabilities without an influence on retained earnings, respectively. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.79%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements	\$ 42,692
Recognition exemption for:	
short-term leases	(945)
Extension and termination options reasonably certain to be exercised	205,937
	<u>\$ 247,684</u>
Discounted using the incremental borrowing rate at January 1, 2019	\$ 194,585
Lease liabilities recognized at January 1, 2019	<u>\$ 194,585</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its financial statements.

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

Those which may be relevant to the Company are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	<p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized bellows. Except for those specifically indicated, the following accounting policies were applied consistently throughout the presented periods in the consolidated financial statements.

(a) Statement of Compliance

These financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments at fair value through profit or loss are measured at fair value;
- 2) Fair value through other comprehensive income are measured at fair value; and
- 3) The defined benefit liabilities is recognized as the fair value of the plan assets less the present value of the defined benefit obligation.

(ii) Functional and presentation currency

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

(c) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Company at exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of translation.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

Exchange differences are generally recognized in profit or loss, except for an investment in equity securities designated as at fair value through other comprehensive income which is recognized in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the Company' s functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated into the Company' s functional currency at average exchange rate. Exchange differences are recognized in other comprehensive income.

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

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

An entity shall classify an asset as current when:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

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

An entity shall classify all other liabilities as non-current.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(e) Cash and cash equivalents

Cash comprise cash balances and call deposits. Cash equivalents are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

A time deposit is qualified as cash equivalent and must be held for the purpose of short term cash commitments rather than for investment or other purposes.

(f) Financial instruments

Accounts receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A accounts receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Company; therefore, those receivables are measured at FVOCI. However, they are included in the 'accounts receivables' line item.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Company's right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized costs, notes and accounts receivable, other receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI and contract assets.

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

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

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

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

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

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

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

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

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

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

The Company considers a financial asset to be in default when the financial asset is more than 360 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 360 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

5) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities.

Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

4) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise short-term loans and borrowings, accounts payable and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized as finance cost under non-operating revenue and expenses. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expired. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The costs of inventories weighted-average principle include expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in process, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(h) Investments in associates

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

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

The consolidated financial reports include the Company's share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Company from the date on which significant influence commences until the date on which significant influence ceases.

Gains and losses resulting from the transactions between the Company and an associate are recognized only to the extent of unrelated the Company's interests in the associate.

When the Company's share of losses of an associate equals or exceeds its interest in an associates, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

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

(i) Investment in subsidiaries

In preparing the separate financial statement of the Company, investee companies controlled by the Company are accounted for using the equity method. Under the equity method, the Company's profit or loss and other comprehensive income are the same as the profit or loss and other comprehensive income attributable to the owners in the consolidated financial statements. The equity balance in the separate financial statements is the same as the equity balance in the consolidated financial statements.

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

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated. The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- 1) Buildings: 2~50 years;
- 2) Machineries and equipments: 2~6 years;
- 3) Transportation and office equipment: 2~6 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

- 2) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Company has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- 1) fixed payments;
- 2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

- 3) amounts expected to be payable under a residual value guarantee; and
- 4) payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- 1) there is a change in future lease payments arising from the change in an index or rate; or
- 2) there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- 3) there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- 4) there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- 5) there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery office and transportation that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Company applies IFRS15 to allocate the consideration in the contract.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

Applicable before January 1, 2019

(i) Lessor

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

(ii) Lessee

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

The depreciable amount is the cost of an asset, less its residual value.

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

The estimated useful lives for current and comparative periods are as follows:

Patents	1~4 years
Computer software cost	1~3 years

Amortization method, amortization period, and residual value for an intangible asset are reviewed at each reporting date and adjusted if appropriate.

(m) Impairment – non derivative financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets and investment properties and biological assets, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are Companyed together into the smallest Company of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or Companys of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Provisions

A provision is recognized if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest expense.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(o) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

(i) Sale of goods

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

The Company recognizes accounts receivables upon the delivery of products, because the Company has unconditional rights to recovery of the consideration at that point in time.

(ii) Services

The Company provides product design and development services to its customers, and recognizes revenue during the reporting period when services are rendered. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is based on the percentage of actual cost incurred over the total costs.

(iii) Financing components

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

(p) Employee benefits

(i) Defined contribution plan

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

The Company that belongs to domestic firms should comply with the Labor Pension Act (hereinafter as "the Act"), which took effect on July 1, 2005. In accordance with the Act, the pension benefits of employees who elect to follow the Act and employees who are retired after the effective date of the Act adopt a defined contribution scheme, whereby the Company makes monthly contributions to the employees' individual pension accounts of no less than 6% of the employees' monthly wages. The amounts contributed are recognized as expense in the current period.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(ii) Defined benefit plan

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when the related services are provided.

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

(q) Income taxes

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

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

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

- (i) Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

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

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(r) **Business acquisition**

For those acquisitions occurring after 1 January 2013 (inclusive), goodwill is measured using ROC GAAP.

The Company measured the acquisition cost of acquiring Elantech in accordance with the Statement of Financial Accounting Standards No. 25 “Business Combinations” and the Accounting Research and Development Foundation Interpretations 97 (075) and 91 (187). The stock issued by the Company is traded in an active market; therefore, the fair value of the stock issued by the Company should be used to determine the fair value of the net assets of the acquired corporation. The acquisition cost was measured in two ways. For stock acquired from non-affiliated companies, accounting was determined by using the purchase method; for stock acquired from affiliated companies, the purchase price was determined by the book value of the affiliated companies’

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

investment in Elantech. The Company recognized the difference between the acquisition cost and the fair value of tangible assets and identifiable intangible assets, less, the liabilities, and recorded it as goodwill.

(s) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to the ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as employee stock options and convertible bonds settled using shares that have yet to be approved by the shareholders' meeting.

(t) Operating segments

The Company has disclosed information about operating segments in its consolidated financial statement. Hence no segmental information was disclosed in the separate financial statements.

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

The preparation of the financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

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

Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the sales price. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(d) for further description of the valuation of inventories.

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Petty cash	\$ 74	74
Checking and demand deposits	630,645	646,726
Time deposits with maturities of three months or less	389,960	1,038,350
	<u>\$ 1,020,679</u>	<u>1,685,150</u>

Please refer to Note 6(r) for the interest rate risk and fair value sensitivity analysis of the financial assets and liabilities of the Company.

As of December 31, 2019 and 2018, time deposits with maturities of more than three months held by the Company amounted to \$0 thousand and \$0 thousand, respectively, and were recorded as other current financial assets. The Company did not recognize impairment loss on other current financial assets for the years ended December 31, 2019 and 2018. Other information relating to credit risk is provided in Note 6(r).

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

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss:		
Current:		
Listed stocks	\$ 6,680	6,336
Open-end certificates of beneficial interest	253,557	251,421
Short-term commercial papers	154,082	168,488
Subtotal	414,319	426,245
Non-current:		
Listed stocks	554,626	583,592
Unlisted funds	30,152	-
Subtotal	584,778	583,592
Total	<u>\$ 999,097</u>	<u>1,009,837</u>

(c) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	\$ 403	292
Accounts receivable - fair value through other comprehensive income	489,034	726,785
Accounts receivable - measured at amortized cost	681,625	354,955
Less: Loss allowance	(27,200)	(37,202)
	<u>\$ 1,143,862</u>	<u>1,044,830</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

The Company has assessed a portion of its accounts receivables that was held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; therefore, such accounts receivables were measured at fair value through other comprehensive income.

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivables have been Companyed based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The allowance for doubtful accounts were determined as follows:

	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Expected credit loss
Current	\$ 1,102,117	0.44%	5,872
1 to 30 days past due	44,123	2.31%	-
31 to 60 days past due	4,015	12.98%	521
More than 90 days past due	20,807	50%~100%	20,807
	<u>\$ 1,171,062</u>		<u>27,200</u>

	December 31, 2018		
	Gross carrying amount	Weighted-average loss rate	Expected credit loss
Current	\$ 1,006,398	0.18%	1,811
1 to 30 days past due	27,998	2.94%	824
31 to 60 days past due	6,672	15.92%	1,063
61 to 90 days past due	807	34.59%	280
More than 90 days past due	40,157	50%~100%	33,224
	<u>\$ 1,082,032</u>		<u>37,202</u>

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

	2019	2018
Balance at January 1, 2019 and 2018	\$ 37,202	35,630
Impairment loss recognized (reversed)	(10,002)	1,572
Balance at December 31, 2019 and 2018	<u>\$ 27,200</u>	<u>37,202</u>

The Company entered into non-recourse factoring agreements with different financial institutions to sell its accounts receivables. Under the agreements, the Company does not have the responsibility to assume the default risk of the transferred accounts receivables. The Company derecognized the above accounts receivables because it has transferred substantially all of the risks and rewards of their ownership, and it does not have any continuing involvement in them. The amounts receivable from the financial institutions were recognized as “other receivables” upon the derecognition of those accounts receivables.

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

December 31, 2019						
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Amount Recognized in Other Receivables	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 777,245</u>	<u>2,801,600</u>	<u>-</u>	<u>777,245</u>	<u>0.05%~0.10%</u>	None

December 31, 2018						
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Amount Recognized in Other Receivables	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 588,039</u>	<u>2,000,000</u>	<u>-</u>	<u>588,039</u>	<u>0.05%~0.12%</u>	None

The Company has deducted the advanced amount from the accounts receivable in accordance with the condition of derecognition as of December 31, 2019 and 2018. The remaining amount has been reclassified into other receivables. The Company did not recognize impairment loss on other receivables for the years ended December 31, 2019 and 2018, and other information on credit risk is disclosed in Note 6(r).

(d) Inventories

	December 31, 2019	December 31, 2018
Raw materials	\$ 372,923	404,354
Work in progress	694,738	486,458
Finished goods	250,948	183,085
	<u>\$ 1,318,609</u>	<u>1,073,897</u>

The details of the cost of sales are as follows:

	2019	2018
Inventory that has been sold	\$ 4,847,138	4,484,560
Write-down of inventories	110,809	89,337
Others	(39)	528
	<u>\$ 4,957,908</u>	<u>4,574,425</u>

As of December 31, 2019 and 2018, the Company did not provide any inventories as collateral for its loans.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

- (e) Financial assets at fair value through other comprehensive income

	December 31, 2019	December 31, 2018
Equity investments at fair value through other comprehensive income:		
Quoted shares	\$ 73,545	149,961
Emerging stocks	11,924	11,033
	<u>\$ 85,469</u>	<u>160,994</u>

- (i) The Company designated the investments shown above as equity securities at fair value through other comprehensive income because these equity securities were held for long-term strategic purposes instead of for trading.
- (ii) In 2019, the Company has sold its shares held in Fitipower Integrated Technology Inc., with a fair value of \$86,015 thousand, resulting in the Company to realize a gain of \$66,937 thousand, which was recognized as other comprehensive income, then reclassified to retained earnings. No strategic investments were disposed as of December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.
- (iii) For market risk, please refer to note 6(r).
- (iv) As of December 31, 2019 and 2018, the Company did not provide any financial assets as collateral for its loans.
- (f) Investments accounted for using equity method

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

	December 31, 2019	December 31, 2018
Subsidiaries	\$ 1,524,803	882,786
Associates	313,575	246,562
	<u>\$ 1,838,378</u>	<u>1,129,348</u>

- (i) Subsidiaries

A summary of the Company's financial information for equity-accounted investees at the reporting date is as follows:

	2019	2018
The Company's share of gain of subsidiaries accounted for using equity method	<u>\$ 556,865</u>	<u>96,466</u>

Please refer to the consolidated financial statements for the year ended December 31, 2019 for further details.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(ii) Associates

The related information on the original cost investments of the associates was as follows:

			December 31, 2019		December 31, 2018	
			Principal country	Share-holding (%)	Amount	Share-holding (%)
	Nature of the relationship					
Tong Fu Investment Corporation	Investment holding	R.O.C.	\$ 30,000	46.73	30,000	46.73
Lighting Device Technologies Corp.	Research, design, develop, manufacture and sale on LED chips	R.O.C.	19,520	45.07	19,520	45.07
Eminent Electronic Technology Corp. Ltd.	Manufactures and sells electronic devices, computer and its related products, and manufactures optical instruments	R.O.C.	52,100	28.94	38,381	29.89
Top Taiwan X Venture Capital Co. Ltd	Venture capital	R.O.C.	240,000	30.00	240,000	30.00
Uniband Electronic Corp	Manufactures and sells electronic devices	R.O.C.	50,000	24.69	80,000	23.12
Finger Pro. Incorporation	Manufactures and sells electronic devices	R.O.C.	6,000	23.08	6,000	23.08
			<u>\$ 397,620</u>		<u>413,901</u>	

A summary of the Company' s financial information for investment accounted for using equity method at the reporting date is as follows:

	2019	2018
The Company' s share of gain (loss) of associates accounted for using equity method	<u>\$ 45,546</u>	<u>(39,386)</u>

The Company' s financial information for investments accounted for using the equity method that are individually insignificant were as follows:

	2019	2018
Attributable to the Company:		
Gain (loss) from continuing operations	\$ 45,546	(39,386)
Other comprehensive loss	(37)	(1,399)
Comprehensive income (loss)	<u>\$ 45,509</u>	<u>(40,785)</u>

The Company recognized \$150,000 thousand and \$20,000 thousand in prepayments for investments against Meanoia Communications Inc. and Rising Star Technology Company Limited as of December 31, 2019, respectively.

The Company recognized \$15,000 thousand and \$10,808 thousand in impairment losses against Eminent Electronic Technology Corp. Ltd. and Tong Fu Investment Corporation for the year ended December 31, 2018, respectively.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(iii) Pledges

As of December 31, 2019 and 2018, the Company did not provide any investments accounted for using the equity method as collateral for its loans.

(g) Property, plant and equipment

The movements of cost and accumulated depreciation of property, plant and equipment were as follows:

	Land	Buildings	Machinery and equipment	Office and transportation equipment	Equipment awaiting examination	Total
Cost:						
Balance as of January 1, 2019	\$ 230,790	1,084,414	433,532	103,019	33,067	1,884,822
Additions	-	5,308	24,991	11,308	8,655	50,262
Derecognized	-	-	(5,061)	(1,809)	-	(6,870)
Reclassification	-	105	26,187	-	(33,155)	(6,863)
Balance as of December 31, 2019	\$ 230,790	1,089,827	479,649	112,518	8,567	1,921,351
Balance as of January 1, 2018	\$ 118,813	1,027,131	400,373	102,761	14,833	1,663,911
Additions	111,977	56,749	31,668	4,543	35,147	240,084
Derecognized	-	-	(8,327)	(4,285)	-	(12,612)
Reclassification	-	534	9,818	-	(16,913)	(6,561)
Balance as of December 31, 2018	\$ 230,790	1,084,414	433,532	103,019	33,067	1,884,822
Accumulated depreciation:						
Balance as of January 1, 2019	\$ -	660,712	368,272	93,901	-	1,122,885
Depreciation	-	16,955	27,568	5,087	-	49,610
	-	-	(5,046)	(1,784)	-	(6,830)
Balance as of December 31, 2019	\$ -	677,667	390,794	97,204	-	1,165,665
Balance as of January 1, 2018	\$ -	645,152	353,687	92,696	-	1,091,535
Depreciation	-	15,560	22,912	5,490	-	43,962
Derecognized	-	-	(8,327)	(4,285)	-	(12,612)
Balance as of December 31, 2018	\$ -	660,712	368,272	93,901	-	1,122,885
Carrying value:						
Balance as of December 31, 2019	\$ 230,790	412,160	88,855	15,314	8,567	755,686
Balance as of December 31, 2018	\$ 230,790	423,702	65,260	9,118	33,067	761,937

As of December 31, 2019 and 2018, the Company did not provide any properties, plant and equipment as collateral for its loans.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(h) Right-of-use assets

The Company leases many assets including land and buildings, machinery and equipment. Information about leases for which the Company as a lessee is presented below:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Total</u>
Cost:					
Balance as of January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	186,140	8,445	-	-	194,585
Balance at January 1, 2019 after adjustment	186,140	8,445	-	-	194,585
Purchases	-	-	375	7,002	7,377
Derecognized	-	(4,174)	-	-	(4,174)
Balance as of December 31, 2019	\$ 186,140	4,271	375	7,002	197,788
Accumulated depreciation and impairment losses:					
Balance at January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	-	-	-	-	-
Balance at January 1, 2019 after adjustment	-	-	-	-	-
Depreciation for the year	5,570	3,278	237	1,152	10,237
Derecognized	-	(949)	-	-	(949)
Balance as of December 31, 2019	\$ 5,570	2,329	237	1,152	9,288
Book value:					
Balance as of January 1, 2019	\$ 186,140	8,445	-	-	194,585
Balance as of December 31, 2019	\$ 180,570	1,942	138	5,850	188,500

(i) Intangible assets

The movements of cost and accumulated amortization of intangible assets were as follows:

	<u>Goodwill</u>	<u>Technical Know-how</u>	<u>Computer software</u>	<u>Total</u>
Cost:				
Balance as of January 1, 2019	\$ 160,600	89,841	123,329	373,770
Additions	-	34,767	23,380	58,147
Derecognized	-	(34,611)	(3,826)	(38,437)
Balance as of December 31, 2019	\$ 160,600	89,997	142,883	393,480
Balance as of January 1, 2018	\$ 160,600	92,742	118,161	371,503
Additions	-	7,854	8,024	15,878
Derecognized	-	(10,755)	(2,856)	(13,611)
Balance as of December 31, 2018	\$ 160,600	89,841	123,329	373,770

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

	Goodwill	Technical Know-how	Computer software	Total
Accumulated amortization:				
Balance as of January 1, 2019	\$ -	81,196	89,831	171,027
Additions	-	7,826	29,894	37,720
Derecognized	-	(34,611)	(3,826)	(38,437)
Balance as of December 31, 2019	<u>\$ -</u>	<u>54,411</u>	<u>115,899</u>	<u>170,310</u>
Balance as of January 1, 2018	\$ -	76,198	65,201	141,399
Additions	-	15,753	27,486	43,239
Derecognized	-	(10,755)	(2,856)	(13,611)
Balance as of December 31, 2018	<u>\$ -</u>	<u>81,196</u>	<u>89,831</u>	<u>171,027</u>
Book value:				
Balance as of December 31, 2019	<u>\$ 160,600</u>	<u>35,586</u>	<u>26,984</u>	<u>223,170</u>
Balance as of December 31, 2018	<u>\$ 160,600</u>	<u>8,645</u>	<u>33,498</u>	<u>202,743</u>

(i) Impairment testing for goodwill

- 1) For the Company's impairment testing purposes, goodwill has been allocated to the operating units testing purpose. The units are the minimum level for the Company's goodwill, which should not be higher than the Company's operating divisions.

The carrying amounts of goodwill were as follow:

	December 31, 2019	December 31, 2018
Laptop input device business cash-generating units	<u>\$ 160,600</u>	<u>160,600</u>

- 2) The recoverable amounts of laptop input device business and network communication business cash-generating unit (CGU) were based on their value-in-use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The key assumptions used in the estimation of the value-in-use were as follows:

	December 31, 2019	December 31, 2018
Revenue growth rate	5%	4%
After-tax discount rate	9.88%	5.16%

The key assumptions represents the management's evaluation of the future industry trends, wherein the external, internal and also historical information, were considered. There were no impairment losses incurred as of December 31, 2019 and 2018.

- (ii) The amortization expenses of intangible assets recognized under operation costs and operating expenses for the years ended 2019 and 2018 were \$37,720 thousand and \$43,239 thousand, respectively.

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

(j) Lease liabilities

The lease liabilities was as follows:

	December 31, 2019
Current	<u>\$ 8,667</u>
Non-current	<u>\$ 180,969</u>

For the maturity analysis, please refer to note 6(r).

The amounts recognized in profit or loss was as follows:

	2019
Interest on lease liabilities	<u>\$ 3,070</u>
Expenses relating to short-term leases	<u>\$ 3,242</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 34</u>

The amounts recognized in the statement of cash flows for the Company was as follows:

	2019
Total cash outflow for leases	<u>\$ 18,506</u>

(i) Real estate leases

As of December 31, 2019, the Company leases land and buildings for its office space. The lease of land typically run for a period of 20 years, and of buildings for 2-3 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. Some leases provide for additional rent payments that are based on changes in local price indices.

(ii) Other leases

The Company leases machinery and equipment, with lease terms of one year. These leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. The Company leases its office and transportation equipment, with lease terms ranging from one to three years. These leases are short-term or leases of low-value items which the Company has elected not to recognize its right-of-use assets and lease liabilities for these leases.

(k) Employee benefits

(i) Defined benefit plans

Reconciliations of defined benefit obligation at present value and plan assets at fair value were as follows:

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

	December 31, 2019	December 31, 2018
Present value of defined benefit obligation	\$ 444,492	447,890
Fair value of plan assets	(77,337)	(74,650)
Net defined benefit liabilities	<u>\$ 367,155</u>	<u>373,240</u>

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

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$77,337 thousand as of December 31, 2019. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Company were as follows:

	2019	2018
Defined benefit obligations at January 1	\$ 447,890	477,980
Current service cost and interest cost	7,528	8,912
Net remeasurements of defined benefit liability (asset)		
— Actuarial gains and losses arising from financial assumptions	14,628	15,601
— Actuarial gains and losses arising from experience adjustments	(17,410)	(19,002)
Benefits paid	(8,144)	(35,601)
Defined benefit obligations at December 31	<u>\$ 444,492</u>	<u>447,890</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

3) Movements of plan assets

The movements in the fair value of plan assets of the Company were as follows:

	2019	2018
Fair value of plan assets, January 1	\$ 74,650	87,283
Interests revenue	1,040	1,432
Net remeasurements of defined benefit liability (asset)		
— Return on plan assets (interest income for the year not included)	2,649	2,021
Contributions	5,739	5,843
Benefits paid	(6,741)	(21,929)
Fair value of plan assets at December 31	<u>\$ 77,337</u>	<u>74,650</u>

4) Expenses recognized in profit or loss

The Company's expenses recognized in profit or loss for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Current service costs	\$ 1,395	1,179
Curtailment or settlement gains	5,093	6,301
	<u>\$ 6,488</u>	<u>7,480</u>

	2019	2018
Operating cost	\$ 570	676
Selling expenses	572	689
Administration expenses	447	622
Research and development expenses	4,899	5,493
	<u>\$ 6,488</u>	<u>7,480</u>

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

The Company's remeasurement values of net defined benefit liabilities (assets) recognized in other comprehensive income for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Accumulated amount at January 1	\$ (3,110)	2,312
Recognized during the period	(5,431)	(5,422)
Accumulated amount at December 31	<u>\$ (8,541)</u>	<u>(3,110)</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

6) Actuarial assumptions

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

	December 31, 2019	December 31, 2018
Discount rate	1.125%	1.375%
Future salary increase rate	5.000%	5.000%

The expected allocation payment to be made by the Company to the defined benefit plans for one-year period after the reporting date was \$5,723 thousand.

As of December 31, 2019 and 2018, the weighted average lifetime of the defined benefits plans were 16.39 and 17.25 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Defined benefit obligation Increase by 0.25%	Decrease by 0.25%
December 31, 2019		
Discount rate	\$ (14,628)	15,249
Future salary increasing rate	14,367	(13,855)
December 31, 2018		
Discount rate	(15,601)	16,323
Future salary increasing rate	15,409	(14,828)

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(ii) Defined contribution plans

The Company's expenses under the pension plan cost to the Bureau of Labor Insurance for the and years ended December 31, 2019 and 2018 were as follows:

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

	2019	2018
Operating cost	\$ 6,839	6,719
Selling expenses	4,261	4,252
Administration expenses	4,059	4,096
Research and development expenses	35,986	34,295
	<u>\$ 51,145</u>	<u>49,362</u>

(l) Income taxes

- (i) The Company is able to avail itself of tax exemptions from its committed capital for expansion in the following years through the proceeds from common stock issuance that conform to the prescribed criteria under the “Statute for Upgrading Industries” as follows:

Year	Tax exemption products	Tax exemption period
2009	to produce and sell high-level integrated circuits	The Company was granted approval from the Industrial Development Bureau, MOEA, on December 16, 2009. The Company had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.

- (ii) The Company’s income tax expenses were as follow:

	2019	2018
Current income tax expense	\$ 340,630	329,150
Deferred income tax expense	(2,192)	(4,061)
Income tax expense	<u>\$ 338,438</u>	<u>325,089</u>

The reconciliation of the differences between the income tax computed at the statutory income tax rate and the income tax expense for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019	2018
Income before income tax	<u>\$ 2,835,182</u>	<u>1,884,669</u>
Income tax computed at statutory tax rate	\$ 567,036	376,934
Tax-exempt income	-	(831)
Suspension of tax-exempt gain on disposal of domestic securities	(1,875)	(307)
Prior year’s income tax adjustment	5,015	4,019
Investment tax credit	(47,597)	(33,694)
Change in unrecognized temporary differences	(79,600)	(21,300)
Investment income from domestic securities	(97,307)	-
Adjustment in tax rate	-	(4,149)
Others	(7,234)	4,417
Total	<u>\$ 338,438</u>	<u>325,089</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(iii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

The Company's unrecognized deferred income tax assets were composed of the following items:

	December 31, 2019	December 31, 2018
Realized valuation losses on long-term investment	\$ 312,300	390,500
Tax-deductible loss	96,500	97,800
Provision for decline in value of inventories	26,700	24,100
Others	3,600	6,300
	<u>\$ 439,100</u>	<u>518,700</u>

Regarding the deductible temporary differences from investment tax credit, the deferred tax assets have not been recognized in respect of these items because it is not probable that the future taxable gain on disposal of securities will be available against which the Company can utilize the benefits therefrom.

2) Recognized deferred income tax assets and liabilities

Movements of recognized deferred income tax assets and liabilities for the years ended December 31, 2019 and 2018 were as follows:

Deferred Tax Liabilities:

	Unrealized Foreign Exchange Gains	Fair Value Gains	Total
Balance at January 1, 2019	\$ -	(2,248)	(2,248)
Recognized in profit or loss	-	151	151
Balance at December 31, 2019	<u>\$ -</u>	<u>(2,097)</u>	<u>(2,097)</u>
Balance at January 1, 2018	\$ (840)	(1,456)	(2,296)
Recognized in profit or loss	840	(792)	48
Balance at December 31, 2018	<u>\$ -</u>	<u>(2,248)</u>	<u>(2,248)</u>

Deferred Tax Assets:

	Decline in Value of Inventories	Others	Total
Balance at January 1, 2019	\$ 24,113	5,708	29,821
Recognized in profit or loss	2,592	(551)	2,041
Balance at December 31, 2019	<u>\$ 26,705</u>	<u>5,157</u>	<u>31,862</u>
Balance at January 1, 2018	\$ 22,164	3,644	25,808
Recognized in profit or loss	1,949	2,064	4,013
Balance at December 31, 2018	<u>\$ 24,113</u>	<u>5,708</u>	<u>29,821</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

- (iv) The tax authorities have examined the Company's income tax return for the year 2016.
- (m) Capital and other equity
 - (i) Ordinary share

As of December 31, 2019 and 2018, the authorized capital of the Company amounted to \$4,800,000 thousand, which was divided into 303,880 thousand shares, each at a par value of \$10 on common stock. The issued capital was composed of common stocks only and have been fully paid-up.

The Company held a shareholders' meeting on June 11, 2018 to approve a capital reduction through cash return to its shareholders amounting to \$1,302,344 thousand, which represented a cancellation of 130,234 thousand shares (30% of common shares), for the purposes of adjusting the Company's capital structure and to increase the return on equity. This capital reduction was approved by the FSC on August 10, 2018. The Company's Board of Directors approved the effective cash return date as August 27, 2018. The Company had registered this capital reduction with MOEA and the actual cash distribution date was on October 24, 2018.

- (ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2019	December 31, 2018
Additional paid-in capital	\$ 231,051	337,409
Treasury share transactions	144,894	87,057
Difference arising from subsidiary's share price and its carrying value	-	19,567
	<u>\$ 375,945</u>	<u>444,033</u>

In accordance with the Companies Act, realized capital surplus can only be reclassified as share capital or distributed as cash dividends after offsetting against losses. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

In pursuant to the resolution of annual shareholders meeting held on June 11, 2018, the Company declared a cash dividend of 0.28 per share, amounting to \$121,552 thousand from capital surplus, distributed via \$121,552 thousand from additional paid-in capital.

In pursuant to the resolution of annual shareholders meeting held on June 10, 2019, the Company declared a cash dividend of 0.35 per share, amounting to \$106,358 thousand from capital surplus, distributed via \$106,358 thousand from additional paid-in capital.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(iii) Retained earnings

According to the Company's articles of incorporation, annual earnings after income tax shall be first used to offset any deficit, then be appropriated 10% as legal reserve, and subsequently appropriate for special reserve. The surplus to be distributed for the current year shall not be lower than 50% of accumulated attributable retained earnings. Cash dividends shall not be lower than 10% of total dividends.

1) Legal reserve

In accordance with the Companies Act, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve, either by new shares or by cash of up to 25 percent of the actual capital.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the current-period total net reduction of other shareholders' equity. Such special reserve will be available for dividend distribution only after the related shareholders' equity reduction has been reversed by the approval of the shareholders' meeting.

3) Earnings distribution

On June 10, 2019 and June 11, 2018, the shareholder's meetings resolved to distribute the 2018 and 2017 earnings via cash dividend. The Company declared a cash dividend of \$4.65 and \$2.30 per share, amounting to \$1,413,044 thousand and \$998,464 thousand, respectively, for the year 2018 and 2017.

There was no difference between the actual distribution and estimation in the financial statements of 2018 and 2017.

(iv) Treasury stock

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Shares (in thousands)</u>	<u>Amounts</u>	<u>Shares (in thousands)</u>	<u>Amounts</u>
The Company's shares held by subsidiaries	<u>12,438</u>	<u>\$ 28,975</u>	<u>12,438</u>	<u>33,328</u>

Elan Investment Corp., a subsidiary of the Company, invested in Elantech before the Company acquired Elantech, and held the Company's stock after the Company's acquisition of Elantech. For the years ended December 31, 2019 and 2018, the information on the Company's stock held by Elan Investment Corp. was as follows:

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

	For the years ended December 31					
	2019			2018		
	Shares (in thousands)	Acquisition cost	Total market value	Shares (in thousands)	Acquisition cost	Total market value
Opening balance	12,438	\$ 33,328	935,353	17,754	91,111	818,450
Effects of valuation change	-	-	199,011	-	-	116,903
Shares buy-back of parent company share due to capital reduction on odd lots	-	-	-	10	449	-
Cash dividend from capital surplus	-	(4,353)	-	-	(4,971)	-
Capital reduction	-	-	-	(5,326)	(53,261)	-
Ending balance	12,438	\$ 28,975	1,134,364	12,438	33,328	935,353

The Company transferred cash dividend revenue received by Elan Investment Corp. amounting to \$57,838 thousand and \$40,834 thousand to capital surplus-treasury stock in 2019 and 2018, respectively.

(v) Other equity

The movements of other equity were as follows:

	For the years ended December 31, 2019		
	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total
Balance as of January 1	\$ (4,219)	176,242	172,023
Foreign exchange differences:			
The Company	(362)	-	(362)
Subsidiaries	(919)	-	(919)
Associates	(37)	-	(37)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income:			
The Company	-	10,490	10,490
The Company-disposal	-	(66,937)	(66,937)
Subsidiaries	-	15,652	15,652
Balance as of December 31	\$ (5,537)	135,447	129,910

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

	For the years ended December 31, 2018		
	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total
Balance as of January 1	\$ (4,060)	151,839	147,779
Foreign exchange differences:			
The Company	400	-	400
Subsidiaries	(539)	-	(539)
Associates	(20)	-	(20)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income:			
The Company	-	29,727	29,727
Subsidiaries	-	(3,945)	(3,945)
Associates	-	(1,379)	(1,379)
Balance as of December 31	<u>\$ (4,219)</u>	<u>176,242</u>	<u>172,023</u>

(n) Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2019 and 2018 were calculated as follows:

(i) Basic earnings per share:

	2019	2018
Net income	<u>\$ 2,496,744</u>	<u>1,559,580</u>
Weighted-average number of shares outstanding (thousands)	<u>291,442</u>	<u>374,723</u>
Earnings per share	<u>\$ 8.57</u>	<u>4.16</u>

(ii) Diluted earnings per share:

	2019	2018
Net income (used to calculate diluted earnings per share)	<u>\$ 2,496,744</u>	<u>1,559,580</u>
Weighted-average number of shares outstanding (thousands)	291,442	374,723
Effect of dilutive potential common stock (thousands)		
— employee emoluments	4,366	3,882
Weighted-average number of shares outstanding (thousands) used to calculate diluted earnings per share	<u>295,808</u>	<u>378,605</u>
Diluted earnings per share	<u>\$ 8.44</u>	<u>4.12</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

(o) Revenue from contracts with customers

(i) Disaggregation of revenue

	2019	2018
Taiwan	\$ 849,106	976,870
Mainland China	1,818,440	1,658,520
Hong Kong	6,603,789	5,760,048
America	6,478	9,321
Europe	2,874	510
Other	28,778	27,727
	<u>\$ 9,309,465</u>	<u>8,432,996</u>
Main products:		
Consumer Touch Control Integrated Circuit	\$ 3,055,192	2,887,546
Laptop Input Device	6,224,411	5,509,739
Development and other income	29,862	35,711
	<u>\$ 9,309,465</u>	<u>8,432,996</u>

For details on revenue for the year ended December 31, 2019, please refer to note 14.

(ii) Contract balances

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

(p) Non-operating income and expenses

(i) Other income

	2019	2018
Interest income	\$ 40,583	43,172
Rental income	8,458	8,613
Dividend income	13,029	8,479
Government grant	29,400	6,300
Others	19,227	4,801
Total	<u>\$ 110,697</u>	<u>71,365</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(ii) Other gains and losses

	2019	2018
Foreign exchange gains (losses)	\$ (28,952)	35,202
Gains (loss) on financial asset at fair value through profit or loss	20,141	(20,912)
Loss on disposal of property, plant and equipment	(428)	(388)
Impairment loss	-	(25,808)
Others	11	-
Total	\$ (9,228)	(11,906)

(q) Employees' compensation and directors' and supervisors' remuneration

According to the Company's Articles of Incorporation, should the Company net a profit for the year, it shall allocate not less than 10% of the profit as employees' compensation and not more than 2% of the profit as directors' and supervisor's remuneration. Should the Company have accumulated losses, it shall first allocate its earnings to offset these losses.

For the years ended December 31, 2019 and 2018, the amounts of employees' bonuses were estimated at \$339,000 thousand and \$226,000 thousand respectively. The amounts remuneration to directors and supervisors were estimated at \$43,500 thousand and \$29,000 thousand respectively. The estimation basis shall be calculated as the amounts of net income before tax deducted employees', directors' and supervisors' bonuses, multiplied distributed percentage of employees' bonuses, directors' and supervisors' remuneration based on the Corporation's articles of incorporation. These bonuses and remuneration were expensed under operating costs or expenses for year 2019 and 2018. However, there were no differences between the distribution amounts of bonuses and remuneration decided by board mentioned above and the estimated amounts of the Company's Notes to the Financial Statements in 2019 and 2018.

(r) Financial instruments

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of credit risk

The major customers of the Company are centralized in the high tech computer industry. To minimize credit risk, the Company periodically evaluates the financial positions of clients and the possibility of collecting accounts receivables. Where necessary, the Company will require the customers to provide guarantees or collateral against their debts.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

Further more, the Consolidated Company monitors and reviews the recoverable amount of the accounts receivables to ensure the uncollectible amount is recognized appropriately as impairment loss.

As of December 31, 2019 and 2018, 78% and 78%, respectively, of accounts receivable were composed by ten major customers. Thus, credit risk is significantly centralized.

3) Receivables and debt securities

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

Other financial assets at amortized cost, including time deposits with maturities of more than three months and other receivables, are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f). There was no loss allowance provision for the years ended December 31, 2019 and 2018, respectively.

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including the estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Con-tract ual cash flows	Within 6 mths	6-12 mths	1-2 years	2-5 years	More than 5 years
December 31, 2019							
Non-derivative financial liabilities							
Notes and accounts payable	\$ 1,167,628	1,167,628	1,167,628	-	-	-	-
Other payable	507,138	507,138	507,138	-	-	-	-
Lease liabilities	189,636	241,118	6,120	5,514	9,367	22,852	197,265
	\$ 1,864,402	1,915,884	1,680,886	5,514	9,367	22,852	197,265
December 31, 2018							
Non-derivative financial liabilities							
Notes and accounts payable	\$ 961,996	961,996	961,996	-	-	-	-
Other payables	649,921	649,921	649,921	-	-	-	-
	\$ 1,611,917	1,611,917	1,611,917	-	-	-	-

The Company is not expecting the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

(iii) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2019				December 31, 2018		
	Foreign currency	Exchange rate		TWD	Foreign currency	Exchange rate	TWD
<u>Financial assets:</u>							
<u>Monetary item</u>							
US dollar	\$	77,679	30.04	2,333,477	68,846	30.71	2,114,261
<u>Financial liabilities:</u>							
<u>Monetary item</u>							
US dollar		45,721	30.04	1,373,459	26,983	30.71	828,648

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the retranslation of foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency. A 5% of appreciation (depreciation) of the TWD against the USD as of December 31, 2019 and 2018 would have increased (decreased) the equity by \$38,401 thousand and \$51,364 thousand, respectively, for the years ended December 31, 2019 and 2018, assuming all other factors remained constant. The analysis is performed on the same basis in 2019 and 2018.

The foreign exchange gains or losses were disclosed on an aggregate basis as there were various types of functional currencies in the Company. The foreign exchange gains and losses (including realized and unrealized) amounted to \$28,952 thousand and \$35,202 thousand for the years ended December 31, 2019 and 2018, respectively.

(iv) Interest rate analysis

The Company's exposure to interest rate risk of financial assets and liabilities was disclosed under liquidity risk of the note.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on reporting date. For variable rates on assets and liabilities, the sensitivity analysis assumes the variable rates on assets and liabilities are outstanding for the whole year on the reporting date. The Company's internal department reported the increases/decreases in the interest rates and the exposure to changes in interest rates on 0.5% on behalf of the Company's key management so as to allow the key management to assess the reasonableness of the changes in the interest rates.

If the interest rate increases/decreases by 0.5%, the Company's net income will increase/decrease by \$1,600 thousand and \$1,899 thousand for the years ended December 31, 2019 and 2018, respectively, with all other variable factors that remain constant. This is mainly due to the Company's time deposits and borrowings in variable rates.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(v) Other market price risk

For the years ended December 31, 2019 and 2018, the sensitivity analyses for the changes in the securities prices at the reporting date were performed using the same basis for the profit and loss as illustrated below:

Prices of securities at the reporting date	2019		2018	
	Other comprehensive income after		Other comprehensive income after	
	tax	Net income	tax	Net income
Increase 5%	\$ 3,419	22,452	8,050	29,496
Decrease 5%	\$ (3,419)	(22,452)	(8,050)	(29,496)

(vi) Fair value of financial instruments

1) Fair value hierarchy

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is measured on a recurring basis. The carrying amount and fair value of the Company's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required:

	December 31, 2019				
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss (current and non-current)	\$ 999,097	260,237	154,082	584,778	999,097
Financial assets measured at fair value through other comprehensive income					
Stocks	85,469	73,545	-	11,924	85,469
Accounts receivable	489,034	-	-	-	-
Subtotal	574,503	73,545	-	11,924	85,469
Financial assets measured at amortized cost					
Cash and cash equivalents	1,020,679	-	-	-	-
Notes and accounts receivables	682,028	-	-	-	-
Other receivables	829,461	-	-	-	-
Other financial assets-current	2,279,650	-	-	-	-
Guarantee deposits	5,300	-	-	-	-
Subtotal	4,817,118	-	-	-	-
Total	\$ 6,390,718	333,782	154,082	596,702	1,084,566
Financial liabilities measured at amortized cost					
Notes and accounts payables	\$ 1,167,628	-	-	-	-
Other payables	1,229,602	-	-	-	-
Lease liabilities (current and non-current)	189,636	-	-	-	-
Guarantee deposits	10,328	-	-	-	-
Total	\$ 2,597,194	-	-	-	-

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

	December 31, 2018				
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss (current and non-current)	\$ 1,009,837	257,757	168,488	583,592	1,009,837
Financial assets measured at fair value through other comprehensive income					
Stocks	160,994	149,961	-	11,033	160,994
Accounts receivable	726,785	-	-	-	-
Subtotal	887,779	149,961	-	11,033	160,994
Financial assets measured at amortized cost					
Cash and cash equivalents	1,685,150	-	-	-	-
Notes and accounts receivables	355,247	-	-	-	-
Other receivables	661,640	-	-	-	-
Other financial assets-current	1,724,850	-	-	-	-
Guarantee deposits	4,200	-	-	-	-
Subtotal	4,431,087	-	-	-	-
Total	<u>\$ 6,328,703</u>	<u>407,718</u>	<u>168,488</u>	<u>594,625</u>	<u>1,170,831</u>
Financial liabilities measured at amortized cost					
Notes and accounts payables	\$ 961,996	-	-	-	-
Other payables	1,286,125	-	-	-	-
Guarantee deposits	10,236	-	-	-	-
Total	<u>\$ 2,258,357</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

2) Valuation techniques for financial instruments measured at fair value

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Measurements of fair value of financial instruments without an active market are based on valuation technique or quoted price from a competitor. Fair value, measured by using valuation technique that can be extrapolated from either similar financial instruments or discounted cash flow method or other valuation techniques, including models, is calculated based on available market data at the reporting date. (For example, over the counter yield curve and Reuters Primary CP Rate average prices.)

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

If the Company's financial instruments do not have an active market, their fair value classifications are determined to be equity instruments with no observable prices, and their fair values are estimated by comparing with competitors whose market prices are available. The main assumption used in this estimation is to calculate the product of the earnings before interest, tax, depreciation and amortization and the price to earnings ratio of listed companies on the stock market. This estimate is discounted by the fact that the equity is not readily available to be traded because there is no active market.

3) Transfers between Level 1 and Level 2

There were no transfers of financial instruments made between any levels for the years ended December 31, 2019 and 2018.

4) Reconciliation of Level 3 fair values

	Non derivative mandatorily measured at fair value through profit or loss (held-for-trading financial assets)
Opening balance, January 1, 2019	\$ 583,592
Total gains and losses recognized:	
In profit or loss	17,557
Purchased	34,967
Reduce the capital for redistribution to share holders	(51,338)
Ending Balance, December 31, 2019	<u><u>\$ 584,778</u></u>
Opening balance, January 1, 2018	\$ 629,266
Total gains and losses recognized:	
In profit or loss	(27,059)
Purchased	29,450
Reduce the capital for redistribution to share holders	(48,065)
Ending Balance, December 31, 2018	<u><u>\$ 583,592</u></u>

For the years ended December 31, 2019 and 2018, total gains and losses that were included in "other gains and losses" from financial assets at fair value through other comprehensive income" were as follows:

	<u>2019</u>	<u>2018</u>
Total gains and losses recognized:		
In profit or loss, and presented in "other gains and losses"	\$ 17,557	(27,059)

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

The Company's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – debt investments" .

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income - equity investments without an active market	Market Comparison Method	<ul style="list-style-type: none"> Price to book ratio (December 31, 2019 and December 31, 2018: 1.22% to 2.35% and 1.32% to 3.04%) Non-liquid discount (December 31, 2019 and December 31, 2018: 7% to 10%) Price to earnings ratio (December 31, 2019 and December 31, 2018: 1.01% to 2.63% and 1.37% to 2.40%) Price to book assets ratio (December 31, 2019 and December 31, 2018: 0.53% to 1.32% and 0.83% to 1.77%) 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> the price to book ratio were higher (lower); the non-liquid discount were lower (higher).
Financial assets at fair value through profit or loss - equity investments without an active market	Net Asset Value Method	Net Asset Value	Not applicable

6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions by the following percentages to reflect reasonably possible alternative assumptions would have the following effects:

		Increase or decrease	Profit or loss	
	Input		Favorable	Unfavorable
December 31, 2019				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Price to book ratio	10%	7,951	(7,951)
	Non-liquid discount	10%	3,473	(3,473)
December 31, 2018				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Price to book ratio	10%	9,930	(9,930)
	Non-liquid discount	10%	642	(642)

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(s) Financial risk management

(i) Overview

The Company have exposed to the following risks from its financial instruments:

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

The following likewise discusses the Company' s objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risk exposures, please refer to respective notes in the report.

(ii) Risk Management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Company' s finance department provides business services to meet other departments' requests and negotiate all necessary transactions on financial markets. In addition, all significant financial activities have to be examined and approved by the Board of Directors. The Company' s financial activities must be in accordance with the overall financial risk management, segregation of duties, and other related policies of the Company. The Company' s audit committee continues to review the amount of the risk exposure in accordance with the Company' s policy and the risk management policies and procedures. The committee reports regularly to the Board of Directors on its activities.

(iii) Credit risk

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

1) Accounts receivable and other receivables

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

Trade and other receivables mainly relate to a wide range of customers from different industries and geographic regions. To minimize the credit risk, the Company continues to assess the financial condition and credit risk of its customers. Allowance for doubtful accounts is recognized if necessary.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

The account of allowance for doubtful receivables was created by the Company in order to reflect the estimate of the losses had been incurred on accounts receivable and other receivables. The abovementioned account mainly consists of specific losses, relating to significant risk, which were measured individually and other unidentified losses which were measured by grouping similar assets together. The measurement of losses by grouping similar assets together was based on the statistical data of payment history of similar financial assets.

2) Investments

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Company's finance department. As the Company deals with the banks and other external parties with good credit standing financial institutions, the management believes that the Company do not have any compliance issues, and therefore, there is no significant credit risk.

(iv) Liquidity risk

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

The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements.

(v) Market risk

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

1) Currency risk

The Company is exposed to currency risk on sales and purchase that are denominated in a currency other than the respective functional currencies of the Company's entities, primarily US Dollars (USD). Natural hedge was adopted to minimize the Company's currency risk. The Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

2) Interest rate risk

Interest risk is the risk that changes in market interest rates will affect the fair value of the Company's financial instruments. For detailed information of interest rate risk exposure, please refer to the liquidity risk management of the note.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

3) Other market price risk

The Company is exposed to other market price risk due to investments of stocks from listed entities. These investments are classified as long-term strategic investment other than held-for-trading investments. The Company was not actively involved in trading these investments.

(t) Capital management

The Company meets its objectives to manage its capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders and interest of other related parties and to maintain an optimal capital structure to reduce the cost of capital.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

After being approved by the Board of Directors, the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for issuing shares under the Company's share option program. Buy-and-sell decisions are made on a specific transaction basis by the Board of Directors; the Company does not have a defined share buy-back plan.

The Company's debt to equity ratios at the end of the reporting period as at December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Total liabilities	\$ 3,234,310	2,890,767
Less: cash and cash equivalents	(1,020,679)	(1,685,150)
Net debt	<u>\$ 2,213,631</u>	<u>1,205,617</u>
Total equity	<u>\$ 7,668,931</u>	<u>6,627,180</u>
Debt to equity ratio	<u>28.86%</u>	<u>18.19%</u>

(u) Investing and financing activities not affecting current cash flow

	January 1, 2019	Cash flows	Non-cash changes	December 31, 2019
			Fair value changes	Others
Lease liabilities	\$ 194,585	(12,160)	-	7,211
Total liabilities from financial activities	<u>\$ 194,585</u>	<u>(12,160)</u>	<u>-</u>	<u>7,211</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

(7) Related-party transactions:

(a) Names and relationship with related parties

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

<u>Name of related party</u>	<u>Relationship with the Company</u>
Elan Investment Corp.	A subsidiary
Metanoia Communications Inc.	A subsidiary
Avisonic Technology Corp.	A subsidiary
PiXORD Corporation	A subsidiary
JPUP Electron Co., Ltd	A subsidiary
Fong Yue Corporation	A subsidiary; The liquidation of Fong Yue was approved by the Regulator in January 2019
Elan (H.K.)	A subsidiary
Elan Information Technology Group	A subsidiary
Power Asia Investment Corporation	A subsidiary
Elan Shanghai	A subsidiary
Elan Shenzhen	A subsidiary
Eminent Electronic Technology Corp. Ltd.	An associates
Finger Pro. Incorporation	An associates

(b) Significant transactions with related parties

(i) Sale of goods to related parties

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

	2019	2018
Subsidiaries-Elan H.K.	\$ 561,936	497,368
Associates-Finger Pro.	-	445
	<u>\$ 561,936</u>	<u>497,813</u>

The prices for sales to related parties were similar to those for general customers. The terms of collection were approximately 30-60 days.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(ii) Raw materials purchasing services and other operating income

	2019	2018
Subsidiaries-Metanoia	\$ 798	659
Subsidiaries-Avisoic	311	372
Associates-Eminent	10,381	4,734
	<u>\$ 11,490</u>	<u>5,765</u>

(iii) Rental income

	2019	2018
Subsidiaries-PiXORD	\$ 1,629	1,629
Subsidiaries-Avisoic	1,363	1,363
Subsidiaries-Metanoia	3,515	3,515
Associates-Eminent	1,906	2,092
	<u>\$ 8,413</u>	<u>8,599</u>

(iv) Purchase and Research expenses

The amounts of purchase from the Company to related parties and development expense performed by related party on behalf of the Company were as follows:

	2019	2018
Associates-Eminent	\$ 26	455
Subsidiaries-JPUP	5,028	12,182
Subsidiaries-PiXORD	1,599	242
	<u>\$ 6,653</u>	<u>12,879</u>

The Company's purchase prices from the Company above are not significantly different than the purchase terms with other third party suppliers. The payment terms are approximately 15~45 days, and this is also not significantly different with the payment terms with other third party suppliers.

(v) Commission expenses

The Company's related parties provide overseas marketing and aftersales services to their customers, and thus the Company makes commission payments based on the amount of sales made. The amount of commission expenses recognized in operating expenses (marketing expenses) during the year ended 2019 and 2018 were as follows:

	2019	2018
Subsidiaries-H.K.	<u>\$ 240,494</u>	<u>237,273</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION
Notes to the Financial Statements

(vi) Receivable from related parties

The receivables from related parties are as follows:

Accounts	Types of related parties	December 31, 2019	December 31, 2018
Accounts receivable	Subsidiaries-Elan H.K.	\$ 44,949	41,738
Accounts receivable	Associates-Eminent	626	1,134
Other receivable	Subsidiaries-Metanoia	2,468	10,464
Other receivables	Subsidiaries-Avisonic	3,432	1,857
Other receivables	Subsidiaries-PiXORD	424	418
Other receivables	Associates-Eminent	12,812	28,831
		\$ 64,711	84,442

(vii) Payables to related parties

The payables to related parties are as follows:

Accounts	Types of related parties	December 31, 2019	December 31, 2018
Accounts payable	Subsidiaries JPUP	\$ 1,066	2,115
Accounts payable	Subsidiaries Elan H.K.	18,695	20,614
Other payable	Subsidiaries Elan H.K.	198	145
Other payable	Subsidiaries Metanoia.	13	10
Other payable	Subsidiaries PiXORD	6	-
		\$ 19,978	22,884

(viii) Property transaction

1) Purchases of property, plant and equipment

During the year ended 2018, the Company acquired equipment and other assets from its related company (PiXORD Corporation) amounting to \$1,177 thousand and \$35 thousand, respectively. These acquisitions were paid in full.

2) Disposal of property, plant and equipment

In January 2015, the Company sold its fixed assets to the associate-Eminent, with the selling price and the fixed asset cost amounting to \$4,856 thousand and \$9,154 thousand, respectively. The loss on disposal amounting to \$4,298 thousand, including the unrealized loss of \$1,942 thousand, is to be recognized over its benefit years of 5 years. All the unrealized loss had been realized in 2019.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(c) Key management personnel compensation

	2019	2018
Short-term employee benefits	\$ 79,073	59,762
Post-employment benefits	572	676
	<u>\$ 79,645</u>	<u>60,438</u>

The short-term employee benefits include emoluments to directors and employees. Please refer to Note (6)(q) for estimation methods.

(8) Pledged assets: None.

(9) Commitments and contingencies:

- (a) The Company entered into performance guarantee agreements with financial institutions for the Company's obligation to pay for the goods purchased and the tax payable on bonded raw materials, commodities, fuel, and semi-finished products shipped outside the bond areas for domestic sales, demonstration, repair or testing. As of December 31, 2019 and 2018, the financial institutions had issued performance guarantees amounting to \$4,000 thousand and \$11,000 thousand, respectively.
- (b) As of December 31, 2019 and 2018, the refundable notes payable for short-term loans amounted to \$330,000 thousand and \$280,000 thousand, respectively.
- (c) The Company entered into non-infringement guarantee agreements with some customers (guarantees) to provide a guarantee regarding the selling of touchpad module products.
- (d) Government grant

To develop "Battery-less And Contactless Fingerprint Smart Card Solution", the Company has signed a technology program contract with the Institute for Information Industry in order to receive a grant amounting to \$42,000 thousand. The period of this research plan is from January 1, 2017 to December 31, 2018. The Company is the exclusive owner of all of the know-how, technical skills and intellectual property derived from this development project. Nevertheless, the Company cannot use the intellectual property to manufacture products in a foreign country without a written consent from the Ministry of Economic Affairs within the two-year period starting from the date that this development project is finished. The Company recognizes income based on the progress made on the planned research and development projects. On December 31, 2018, the subsidy's received but not recognized income was \$86,015 thousand. The development plan was completed on December 31, 2019. For the year ended December 31, 2019, the Company recognized income from government grant amounting to \$29,400 thousand within other gains and losses income.

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to the Financial Statements

(e) Royalty fee

The Company signed a software authorization contract with a software company. The contract can be terminated at anytime upon the request of either party. Pursuant to the contract, the Company shall pay a royalty fee based on the sales quantity or other agreed conditions when the Company produces and sells products using this software.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other:

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

	For the years ended December 31					
	2019			2018		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 255,907	1,310,847	1,566,754	242,185	1,199,190	1,441,375
Labor and health insurance	21,026	75,567	96,593	19,608	71,308	90,916
Pension expenses	7,409	50,224	57,633	7,395	49,447	56,842
Remuneration of directors	-	45,050	45,050	-	30,600	30,600
Others	16,361	34,014	50,375	14,830	32,100	46,930
Depreciation expenses	24,261	35,586	59,847	15,945	28,017	43,962
Amortization expenses	173	37,547	37,720	44	43,195	43,239

For the years ended December 31, 2019 and 2018, the total numbers of employees and employee benefits were as follows:

	2019	2018
Number of employees	<u>947</u>	<u>931</u>
Number of directors who were not employees	<u>5</u>	<u>4</u>
The average employee benefits	<u>\$ 1,880</u>	<u>1,765</u>
The average salaries and wages	<u>\$ 1,663</u>	<u>1,555</u>
The adjustment rate of average employee salaries	<u>6.95%</u>	

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Company for the nine months ended December 31, 2019:

- (i) Loans to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Microelectronics Corporation	Harvatek Corporation	-	Current financial assets at fair value through profit or loss	491	6,680	-%	6,680	
Elan Microelectronics Corporation	Fubon China Money Market FUND-TWD	-	Current financial assets at fair value through profit or loss	2,901	30,141	-%	30,141	
Elan Microelectronics Corporation	PineBridge Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,209	30,314	-%	30,314	
Elan Microelectronics Corporation	Cathay Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,430	30,344	-%	30,344	
Elan Microelectronics Corporation	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	1,960	21,185	-%	21,185	
Elan Microelectronics Corporation	KGI Victory Money Market Fund	-	Current financial assets at fair value through profit or loss	3,458	40,192	-%	40,192	
Elan Microelectronics Corporation	Union Money Market Fund	-	Current financial assets at fair value through profit or loss	3,801	50,380	-%	50,380	
Elan Microelectronics Corporation	Prudential Financial Return Fund	-	Current financial assets at fair value through profit or loss	2,811	40,090	-%	40,090	
Elan Microelectronics Corporation	Diversified FX Trading Segregated Portfolio	-	Current financial assets at fair value through profit or loss	117	10,911	-%	10,911	
Elan Microelectronics Corporation	Global Strategic FX Arbitrage Note	-	Current financial assets at fair value through profit or loss	208	62,483	-%	62,483	
Elan Microelectronics Corporation	Multi-Manager FX Trading Note (M2)	-	Current financial assets at fair value through profit or loss	204	61,559	-%	61,559	
Elan Microelectronics Corporation	Global Strategic FX Arbitrage Note (USD)(SERIES II)	-	Current financial assets at fair value through profit or loss	100	30,040	-%	30,040	
Elan Microelectronics Corporation	Fitipower Integrated Technology Inc.	-	Non-current financial assets at fair value through other comprehensive income	1,956	73,545	1.18%	73,545	
Elan Microelectronics Corporation	ThroughTek Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	1,100	11,924	4.23%	11,924	
Elan Microelectronics Corporation	Chino-Excel Technology Corporation	-	Non-current financial assets at fair value through profit or loss	823	-	1.48%	-	
Elan Microelectronics Corporation	Panther technology Co., Ltd.	-	Non-current financial assets at fair value through profit or loss	340	4,746	0.94%	4,746	
Elan Microelectronics Corporation	XINCE Co., Ltd	-	Non-current financial assets at fair value through profit or loss	2,866	-	9.24%	-	

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	1,391	1,916	17.39%	1,916	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	490	1,992	7.00%	1,992	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	1,138	1,556	8.13%	1,556	
Elan Microelectronics Corporation	TOP TAIWAN V VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	717	6,451	2.17%	6,451	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	2,878	30,177	6.12%	30,177	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	5,417	51,099	4.17%	51,099	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	2,500	8,525	10.24%	8,525	
Elan Microelectronics Corporation	Midatouch Research Corporation	-	Non-current financial assets at fair value through profit or loss	5,000	58,058	6.25%	58,058	
Elan Microelectronics Corporation	InnoBridge Venture Capital	-	Non-current financial assets at fair value through profit or loss	800	3,645	11.35%	3,645	
Elan Microelectronics Corporation	Startek Engineering Inc.	-	Non-current financial assets at fair value through profit or loss	189	-	0.53%	-	
Elan Microelectronics Corporation	North Star Venture Capital	-	Non-current financial assets at fair value through profit or loss	3,000	39,783	10.00%	39,783	
Elan Microelectronics Corporation	TOP TAIWAN XI VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	5,000	42,983	6.25%	42,983	
Elan Microelectronics Corporation	Genius Vision Digital Inc.	-	Non-current financial assets at fair value through profit or loss	495	-	6.56%	-	
Elan Microelectronics Corporation	Lyra Semiconductor Incorporated	-	Non-current financial assets at fair value through profit or loss	2,400	21,720	5.87%	21,720	
Elan Microelectronics Corporation	TOP TAIWAN XII VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	25,000	269,550	18.52%	269,550	
Elan Microelectronics Corporation	Chimei Motor Electronics Co., Ltd.	-	Non-current financial assets at fair value through profit or loss	950	7,885	5.00%	7,885	
Elan Microelectronics Corporation	Waltop International Corporation	-	Non-current financial assets at fair value through profit or loss	500	4,540	3.41%	4,540	
Elan Microelectronics Corporation	Vertex Growth (SG) LP	-	Non-current financial assets at fair value through profit or loss	-	30,152	-%	30,152	
Elan Investment Corp.	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	186	33,349	-%	33,349	
Elan Investment Corp.	FSITC US Top 100 Bond Fund Acc TWD	-	Current financial assets at fair value through profit or loss	1,500	15,075	-%	15,075	

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Investment Corp.	FSITC Global Wealthy Nations Bond Fund Acc TWD	-	Current financial assets at fair value through profit or loss	2,629	26,296	-%	26,296	
Elan Investment Corp.	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	5,000	53,842	-%	53,842	
Elan Investment Corp.	Nomura Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,221	36,384	-%	36,384	
Elan Investment Corp.	Taishin Global Multi-asset Fund of Funds-TWD-A	-	Current financial assets at fair value through profit or loss	1,000	10,940	-%	10,940	
Elan Investment Corp.	Taishin Global Disruptive Innovation Fund-TWD	-	Current financial assets at fair value through profit or loss	1,500	16,905	-%	16,905	
Elan Investment Corp.	Taishin 1699 Money Market Fund	-	Current financial assets at fair value through profit or loss	5,556	75,479	-%	75,479	
Elan Investment Corp.	Taishin North American Income Trust Fund-A	-	Current financial assets at fair value through profit or loss	1,943	46,178	-%	46,178	
Elan Investment Corp.	Diversified FX Trading Segregated Portfolio	-	Current financial assets at fair value through profit or loss	534	49,675	-%	49,675	
Elan Investment Corp.	Elan Microelectronics Corporation	Subsidiary	Non-current financial assets at fair value through other comprehensive income	12,438	1,134,364	4.09%	1,134,364	
Elan Investment Corp.	Fitipower Intergrated Technology Inc.	-	Non-current financial assets at fair value through other comprehensive income	941	35,364	0.58%	35,364	
Elan Investment Corp.	Rafael Microelectronics, Inc.	-	Non-current financial assets at fair value through other comprehensive income	400	71,000	1.59%	71,000	
Elan Investment Corp.	Panther Technology Co., Ltd.	-	Non-current financial assets at fair value through profit or loss	1,396	19,474	3.88%	19,474	
Elan Investment Corp.	RISE Technology Com	-	Non-current financial assets at fair value through profit or loss	769	-	3.23%	-	
Elan Investment Corp.	FineMat Applied Materials Co., Ltd	-	Non-current financial assets at fair value through profit or loss	8,900	721,196	13.41%	721,196	
Elan Investment Corp.	Linkinwave-Preferred shares	-	Non-current financial assets at fair value through profit or loss	296	-	-%	-	
Elan Investment Corp.	Pica 8-Preferred shares	-	Non-current financial assets at fair value through profit or loss	342	4,835	2.25%	4,835	
Elan Investment Corp.	Arplanet Digital Technology Co., LTD.-Common Stock	-	Non-current financial assets at fair value through profit or loss	114	1,351	4.69%	1,351	
Elan Investment Corp.	Arplanet Digital Technology Co., LTD.-Common Stock	-	Non-current financial assets at fair value through profit or loss	75	886	3.08%	886	
Elan Investment Corp.	INNOJOY TECHNOLOGY INC.-Preferred Shares	-	Non-current financial assets at fair value through profit or loss	143	-	10.00%	-	
Elan Investment Corp.	ZQAM Communications Corporation-Preferred shares	-	Non-current financial assets at fair value through profit or loss	1,000	5,590	4.63%	5,590	
Elan Investment Corp.	e-Formula Technologies, Inc.	-	Non-current financial assets at fair value through profit or loss	550	12,832	3.03%	12,832	
Elan Investment Corp.	ALGOLREALITY CO., LTD.-Preferred Shares	-	Non-current financial assets at fair value through profit or loss	100	-	13.04%	-	
Elan Investment Corp.	Vita Genomics, Inc.	-	Non-current financial assets at fair value through profit or loss	677	6,975	1.13%	6,975	

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
Elan Investment Corp.	MedicusTek International Inc.	-	Non-current financial assets at fair value through profit or loss	1,010	-	1.47%	-	
Elan Investment Corp.	Taiwan i Connect Co., Ltd.-Preferred Shares	-	Non-current financial assets at fair value through profit or loss	10,000	2,705	14.29%	2,705	
Elan Investment Corp.	Genius Vision Digital Inc.	-	Non-current financial assets at fair value through profit or loss	370	-	4.91%	-	

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Elan Microelectronics Corporation	Elan H.K.	Subsidiary	Sale	561,936	6.04%	Open Account 45 Days	-		44,949	3.84%	

Note: The amounts of the transaction and the ending balance had been offset in the consolidated financial statements.

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None.
- (ix) Trading in derivative instruments: None.
- (b) Information on investees:

The followings are the information on investees for the years ended December 31, 2019 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value			
Elan Microelectronics Corporation	Elan H.K. Microelectronics Corp. Ltd.	Hong kong, China	Sale and after-sales service	123,272	123,272	29,328	100.00%	290,768	70,908	70,908	Note
Elan Microelectronics Corporation	Elan Investment Corp.	Taipei, Taiwan	Investment holding	500,000	500,000	50,000	100.00%	1,320,922	591,850	591,850	Note
Elan Microelectronics Corporation	Elan Information Technology Group	California, USA	Sale, after-sales service and provide new informational skills	22,822	22,822	65	100.00%	16,202	1,681	1,681	Note
Elan Microelectronics Corporation	JPUP Electron Co., Ltd	New Taipei City, Taiwan	Wholesale and installation of electronic devices, data storage and equipment process	7,840	7,840	784	49.00%	1,291	(5,147)	(2,522)	Note
Elan Microelectronics Corporation	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	184,939	1,041,136	9,730	63.60%	(139,089)	(61,527)	(39,108)	Note
Elan Microelectronics Corporation	Avisionic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	134,523	266,333	12,542	80.08%	10,065	(47,686)	(35,598)	Note
Elan Microelectronics Corporation	Tong fu Investment Corp.	Hsin-Chu, Taiwan	Investment holding	30,000	30,000	3,000	46.73%	-	-	-	
Elan Microelectronics Corporation	Lighting Device Technologies Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on LED chips	19,520	19,520	1,805	45.07%	-	-	-	
Elan Microelectronics Corporation	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	376,024	376,024	33,871	96.77%	24,644	(26,818)	(25,954)	Note
Elan Microelectronics Corporation	EMINENT ELECTRONIC TECHNOLOGY CORP. LTD.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	52,100	38,381	4,113	28.94%	18,008	8,322	2,479	

(Continued)

ELAN MICROELECTRONICS CORPORATION

Notes to Consolidated Financial Statements

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value			
Elan Microelectronics Corporation	TOP TAIWAN X VENTURE CAPITAL CO., LTD.	Taipei, Taiwan	Venture capital	240,000	240,000	24,000	30.00%	280,672	167,394	50,218	
Elan Microelectronics Corporation	Fong Yue Corporation	Taipei, Taiwan	Investment holding	-	30,000	-	- %	-	(4,392)	(4,392)	Note
Elan Microelectronics Corporation	Uniband Electronic Corp.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	50,000	80,000	5,000	24.69%	13,628	(25,860)	(5,996)	
Elan Microelectronics Corporation	Finger Pro. Incorporation	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	6,000	6,000	600	23.08%	1,267	(5,003)	(1,155)	
Elan Investment Corp.	Avisonic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	6,463	21,543	646	4.13%	537	(47,686)	(2,775)	Note
Elan Investment Corp.	RONG CHENG Technology	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	77,706	77,706	8,000	38.46%	-	-	-	
Elan Investment Corp.	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	2,659	2,659	174	0.50%	126	(26,818)	(133)	Note
Elan Investment Corp.	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	8,068	44,825	653	4.26%	4,964	(61,527)	(2,625)	Note
Elan Investment Corp.	EMINENT ELECTRONIC TECHNOLOGY CORP. LTD.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	38,481	-	3,000	15.04%	17,262	8,414	136	
Elan H.K.	Power Asia Investment Corporation	Republic of Mauritius	Investment business	89,572	89,572	2,861	100.00%	25,015	1,715	1,715	Note

Note: Investments in subsidiaries whereby the Company has control over has been eliminated at the Company level from long term investment.

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) recognized	Carrying value as of December 31, 2019	Accumulated inward remittance of earnings as of December 31, 2019
					Outflow	Inflow						
Elan Shanghai	Provide system design, information on applications expansion	52,095	(2)	52,095	-	-	52,095	2,312	100.00%	2,312	15,711	-
Elan Shenzhen	Provide system design, information on applications expansion	34,670	(2)	34,670	-	-	34,670	(606)	100.00%	(606)	8,835	-

Note: The investment income (losses) from Elan Shanghai and Elan Shenzhen are calculated on the reviewed financial statements in the same period.

(ii) Upper limit on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
86,765	98,333	4,601,359

Note: The investment limit was calculated on the official document 09704604680 announced by the MOEAIC on August 29, 2008.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(14) Segment information:

Please refer to the consolidated financial report of 2019.

(Continued)

Representation Letter

The entities that are required to be included in the combined financial statements of ELAN MICROELECTRONICS CORPORATION as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, ELAN MICROELECTRONICS CORPORATION and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: ELAN MICROELECTRONICS CORPORATION
Chairman: Yeh, Yi-Hao
Date: March 10, 2020

Independent Auditors’ Report

To the Board of Directors

ELAN MICROELECTRONICS CORPORATION:

Opinion

We have audited the consolidated financial statements of ELAN MICROELECTRONICS CORPORATION (“the Company”), and its subsidiaries (together referred to as the “Group”), which comprise the consolidated statement of financial position as of December 31, 2019 and 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, base on our audits and the reports of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation developed by International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“ISIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the “Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Base on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Other Matter

We did not audit the financial statements of Top Taiwan X Venture Capital Co. Ltd which represented investment accounted for using the equity method of the Group. These statement was audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for Top Taiwan X Venture Capital Co. Ltd, is based solely on the report of another auditor. The investment in Top Taiwan X Venture Capital Co. Ltd accounted for using the equity method constituted 2.50% of the consolidated total assets at December 31, 2019, and the related share of profit of associates and joint ventures accounted for using the equity method constituted 1.79% of the consolidated total income before tax for the year ended December 31, 2019.

We did not audit the financial statements of Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, which represented investment accounted for using the equity method of the Group. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as they relate to the amounts included for Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp, are based solely on the reports of other auditors. The investment in Top Taiwan X Venture Capital Co. Ltd and Uniband Electronic Corp accounted for using the equity method constituted 2.49% of the consolidated total assets at December 31, 2018, and the related share of profit of associates and joint ventures accounted for using the equity method constituted (0.88)% of the consolidated total income before tax for the year ended December 31, 2018.

The Company has prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion with other matter paragraph.

Key Audit Matters

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

1. Valuation of inventories

Please refer to Notes 4(h) for accounting policy of inventory, Notes 5 for accounting estimations and assumption uncertainty of inventory valuation, and Notes 6(d) for the write-down of inventories to net realizable value.

Description of key audit matter:

The inventories are measured at the lower of cost and net realizable value. Due to the rapid changes in the economy and the environment, and the production technology update, the cost of inventories are in a risk that the inventory cost exceeds its net realizable value.

How the matter was addressed in our audit:

For valuation of the inventories, we reviewed the inventory aging reports, analyzed the inventory turnovers and changes in its aging inventory for each period to assess the reasonableness of the Group's inventory provision rate, evaluated the accounting policy rationality, understood the sales price adopted by the management evaluation, reviewed the sales status and evaluation which was based on the net realizable value used to assess the appropriateness of the Group management's estimation on inventory provision.

2. Revenue recognition

Please refer to Note 4(o) and 6(p) for accounting policy of revenue recognition.

Description of key audit matter:

The major business activities of the Group are the manufacture and sale of integrated circuits. The Group also offers research and development services with respect to the products presented above. Test of revenue recognition is one of the key audit matters in our audit. Revenue is the key performance indicator to evaluate the performance by the investors and management, and thus, needs significant attention in our audit.

How the matter was addressed in our audit:

We tested the effectiveness of the related controls surrounding revenue recognition, reviewed relevant sales documents to evaluate whether the revenue recognition is consistent with the accounting policy; performed trend analysis on the top ten customers and revenue by products, to assess significant exception, if any; tested the sales transactions before and after the end of the year and its relevant documents to evaluate the accuracy of the amount and period of the revenue recognized.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chou, Pao-Lian and Tseng, May-Yu.

KPMG

Taipei, Taiwan (Republic of China)

March 10, 2020

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018				December 31, 2019		December 31, 2018	
		Amount	%	Amount	%			Amount	%	Amount	%
Assets											
Current assets:											
1100	Cash and cash equivalents (notes 6(a) and (s))	\$ 1,502,121	13	2,075,773	21	2100	Short-term borrowings (notes 6(j) and (s))	\$ 241,000	2	243,000	2
1110	Current financial assets at fair value through profit or loss (notes 6(b) and (s))	778,442	7	655,238	7	2170	Accounts payable (notes 6(s) and 7)	1,169,761	10	975,578	10
1170	Notes and accounts receivable, net (notes 6(c), (s) and 7)	1,195,296	11	1,104,734	11	2206	Employee bonus payable (notes 6(r) and (s))	382,500	3	255,000	3
1200	Other receivables (notes 6(c), (s) and 7)	835,141	7	658,085	7	2230	Current tax liabilities	278,873	2	269,983	3
1310	Inventories, net (note 6(d))	1,386,202	12	1,156,253	12	2280	Current lease liabilities (notes 6(k) and (s))	21,279	-	-	-
1410	Prepayments and other current assets	20,323	-	38,222	-	2300	Other current liabilities (note 6(s))	964,528	10	1,085,084	10
1476	Other current financial assets (notes 6(a) and (s))	2,289,450	21	1,759,480	18			3,057,941	27	2,828,645	28
		8,006,975	71	7,447,785	76						
Non-current assets:											
1510	Non-current financial assets at fair value through profit or loss (notes 6(b) and (s))	1,360,622	12	808,068	8	2570	Deferred tax liabilities	2,097	-	2,248	-
1517	Non-current financial assets at fair value through other comprehensive income (note 6(e) and (s))	191,833	2	252,100	3	2580	Non-current lease liabilities (notes 6(k) and (s))	200,563	2	-	-
1551	Investments accounted for using equity method (note 6(f))	330,837	3	246,562	3	2640	Net defined benefit liability, non-current (note 6(l))	372,373	3	378,819	4
1600	Property, plant and equipment (notes 6(g) and 7)	760,537	7	767,874	8	2645	Guarantee deposits received (note 6(s))	10,766	-	10,677	-
1755	Right-of-use assets (note 6(h))	220,483	2	-	-			585,799	5	391,744	4
1780	Intangible assets (note 6(i))	304,219	3	225,319	2			3,643,740	32	3,220,389	32
1840	Deferred tax assets	31,862	-	29,821	-		Total liabilities				
1900	Other non-current assets (note 6(s))	19,524	-	25,618	-		Equity attributable to owners of parent: (notes 6(n) and (o))				
1960	Prepayments for investments (note 6(f))	20,000	-	-	-	3100	Capital stock	3,038,804	27	3,038,804	31
		3,239,917	29	2,355,362	24	3200	Capital surplus	375,945	3	444,033	5
							Retained earnings:				
						3310	Legal reserve	1,575,923	14	1,419,965	14
						3350	Undistributed earnings	2,577,324	24	1,585,683	16
								4,153,247	38	3,005,648	30
						3400	Other equity	129,910	1	172,023	2
						3500	Treasury shares	(28,975)	-	(33,328)	-
							Total equity attributable to owners of parent:	7,668,931	69	6,627,180	68
						36XX	Non-controlling interests	(65,779)	(1)	(44,422)	-
							Total equity	7,603,152	68	6,582,758	68
Total assets		\$ 11,246,892	100	9,803,147	100		Total liabilities and equity	\$ 11,246,892	100	9,803,147	100

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

		2019		2018	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(p), 7 and 14)	\$ 9,487,977	100	8,651,332	100
5000	Operating costs (notes 6(d), (l) and 7)	5,074,045	53	4,709,457	54
5900	Gross profit from operations	4,413,932	47	3,941,875	46
5920	Add: Realized profit from sales	2,756	-	2,302	-
5950	Gross profits	4,416,688	47	3,944,177	46
6000	Operating expenses: (notes 6(c), (l) and 12)				
6100	Selling expenses	399,234	4	349,848	4
6200	Administrative expenses	347,521	4	331,042	4
6300	Research and development expenses	1,596,392	17	1,531,009	18
6450	Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	(7,885)	-	1,990	-
		2,335,262	25	2,213,889	26
6900	Operating income	2,081,426	22	1,730,288	20
7000	Non-operating income and expenses:				
7010	Other income (note 6(q))	121,354	1	71,152	1
7020	Other gains and losses (notes 6(q) and 7)	573,834	6	114,339	1
7050	Finance costs	(9,467)	-	(4,651)	-
7590	Miscellaneous disbursements	(3,169)	-	(1,674)	-
7770	Share of gain (loss) of associates accounted for using equity method (note 6(f))	45,682	1	(39,386)	-
		728,234	8	139,780	2
7900	Profit before tax	2,809,660	30	1,870,068	22
8110	Less: Income tax expenses (note 6(m))	344,918	4	338,366	4
	Net profit	2,464,742	26	1,531,702	18
8300	Other comprehensive income (loss):				
8310	Components of other comprehensive income (loss) that will not be reclassified to profit or loss				
8311	Gains on remeasurements of defined benefit plans	4,968	-	4,904	-
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	26,142	-	25,782	-
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	-	-	(1,379)	-
8349	Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		31,110	-	29,307	-
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(1,281)	-	(139)	-
8370	Share of other comprehensive income of associates accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(37)	-	(20)	-
8399	Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	(1,318)	-	(159)	-
8300	Other comprehensive income, net	29,792	-	29,148	-
8500	Comprehensive income	\$ 2,494,534	26	1,560,850	18
	Net profit attributable to:				
8610	Owners of parent	\$ 2,496,744	26	1,559,580	18
8620	Non-controlling interests	(32,002)	-	(27,878)	-
		\$ 2,464,742	26	1,531,702	18
	Comprehensive income attributable to:				
8710	Owners of the parent	\$ 2,526,686	26	1,588,903	18
8720	Non-controlling interests	(32,152)	-	(28,053)	-
		\$ 2,494,534	26	1,560,850	18
	Earnings per share (expressed in dollars) (note 6(o))				
9710	Basic earnings per share	\$ 8.57		4.16	
9850	Diluted earnings per share	\$ 8.44		4.12	

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
	Retained earnings				Total other equity interest			Total equity			
					Exchange differences on translation of	Unrealized gains (losses) from financial assets measured at fair value	Unrealized gains (losses) on available-for-sale financial assets				
	Ordinary shares	Capital surplus	Legal reserve	Unappropriated retained earnings	foreign financial statements	through other comprehensive income		Treasury shares	attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2018	\$ 4,341,148	536,328	1,312,585	1,109,748	(4,060)	-	151,839	(91,111)	7,356,477	(33,014)	7,323,463
Effects of retrospective application	-	-	-	17,120	-	151,839	(151,839)	-	17,120	-	17,120
Balance at January 1, 2018 after adjustments	4,341,148	536,328	1,312,585	1,126,868	(4,060)	151,839	-	(91,111)	7,373,597	(33,014)	7,340,583
Net profit	-	-	-	1,559,580	-	-	-	-	1,559,580	(27,878)	1,531,702
Other comprehensive income	-	-	-	5,079	(159)	24,403	-	-	29,323	(175)	29,148
Total comprehensive income	-	-	-	1,564,659	(159)	24,403	-	-	1,588,903	(28,053)	1,560,850
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	107,380	(107,380)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(998,464)	-	-	-	-	(998,464)	-	(998,464)
Other changes in capital surplus:											
Cash dividends from capital surplus	-	(121,552)	-	-	-	-	-	-	(121,552)	-	(121,552)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	40,834	-	-	-	-	-	4,971	45,805	-	45,805
Capital reduction	(1,302,344)	-	-	-	-	-	-	52,812	(1,249,532)	-	(1,249,532)
Issuance of shares for non-controlling interests	-	-	-	-	-	-	-	-	-	860	860
Changes in non-controlling interests	-	(11,577)	-	-	-	-	-	-	(11,577)	15,785	4,208
Balance at December 31, 2018	3,038,804	444,033	1,419,965	1,585,683	(4,219)	176,242	-	(33,328)	6,627,180	(44,422)	6,582,758
Net profit	-	-	-	2,496,744	-	-	-	-	2,496,744	(32,002)	2,464,742
Other comprehensive income	-	-	-	5,118	(1,318)	26,142	-	-	29,942	(150)	29,792
Total comprehensive income	-	-	-	2,501,862	(1,318)	26,142	-	-	2,526,686	(32,152)	2,494,534
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	155,958	(155,958)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(1,413,044)	-	-	-	-	(1,413,044)	-	(1,413,044)
Other changes in capital surplus:											
Cash dividends from capital surplus	-	(106,358)	-	-	-	-	-	-	(106,358)	-	(106,358)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	57,838	-	-	-	-	-	4,353	62,191	-	62,191
Issuance of shares for non-controlling interests	-	-	-	-	-	-	-	-	-	5,377	5,377
Changes in non-controlling interests	-	(19,568)	-	(8,156)	-	-	-	-	(27,724)	5,418	(22,306)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	66,937	-	(66,937)	-	-	-	-	-
Balance at December 31, 2019	\$ 3,038,804	375,945	1,575,923	2,577,324	(5,537)	135,447	-	(28,975)	7,668,931	(65,779)	7,603,152

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Profit before tax	\$ 2,809,660	1,870,068
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	76,557	46,353
Amortization expense	47,023	49,845
Expected credit loss (gain)	(7,885)	1,990
Net gain on financial assets at fair value through profit or loss	(601,235)	(100,218)
Interest expense	9,467	4,651
Interest income	(41,410)	(43,857)
Dividend income	(25,688)	(11,434)
Share of loss (gain) of associates accounted for using equity method	(45,682)	39,386
Loss on disposal of property, plant and equipment	678	387
Impairment loss	-	25,808
Difference between net pension liability and actual appropriations	(1,478)	(12,483)
Impairment loss and disposal loss on inventory	123,050	93,385
Others	(2,115)	612
Total adjustments to reconcile profit	<u>(468,718)</u>	<u>94,425</u>
Changes in operating assets and liabilities:		
Increase in notes and accounts receivable	(82,676)	(168,951)
Increase in inventories	(352,999)	(95,835)
Decrease in prepayments and other current assets	24,810	33,645
Increase in other receivables	(177,086)	(118,934)
Increase in notes and accounts payable	194,183	79,604
Increase in other current liabilities	<u>10,662</u>	<u>219,914</u>
Cash inflow generated from operations	1,957,836	1,913,936
Interest received	41,440	44,173
Dividends received	27,473	11,443
Interest paid	(9,403)	(4,629)
Income taxes paid	<u>(338,220)</u>	<u>(226,737)</u>
Net cash flows from operating activities	<u>1,679,126</u>	<u>1,738,186</u>
Cash flows from (used in) investing activities:		
Acquisition of investment accounted for using equity method	(62,201)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	86,015	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	51,338	48,065
Acquisition of financial assets at fair value through profit or loss	(31,887)	(37,989)
Proceeds from disposal of financial assets at fair value through profit or loss	237,201	62,647
Decrease (increase) in financial assets at fair value through profit or loss	(331,175)	77,168
Acquisition of property, plant and equipment	(50,908)	(240,827)
Decrease (increase) in refundable deposits	461	(518)
Acquisition of intangible assets	(125,924)	(18,891)
Decrease in other non-current assets	5,633	3,831
Increase in prepayments for investments	(20,000)	-
Decrease (increase) in time deposit with maturity longer than three months	<u>(529,970)</u>	<u>779,720</u>
Net cash flows from (used in) investing activities	<u>(771,417)</u>	<u>673,206</u>
Cash flows used in financing activities:		
Increase in short-term loans	616,000	373,000
Decrease in short-term loans	(618,000)	(370,000)
Increase in guarantee deposits received	89	251
Payment of lease liabilities	(27,616)	-
Cash dividends paid	(1,457,211)	(1,074,211)
Capital reduction	-	(1,249,532)
Change in non-controlling interests	<u>5,377</u>	<u>860</u>
Net cash flows used in financing activities	<u>(1,481,361)</u>	<u>(2,319,632)</u>
Net increase (decrease) in cash and cash equivalents	(573,652)	91,760
Cash and cash equivalents at the beginning of period	<u>2,075,773</u>	<u>1,984,013</u>
Cash and cash equivalents at the end of period	<u>\$ 1,502,121</u>	<u>2,075,773</u>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

Elan Microelectronics Corp. (the “Company”) was incorporated on May 5, 1994, under the approval of Ministry of Economic Affairs, Republic of China (“ROC”). The Group is located in the Hsinchu Science-based Industrial Park. The major business activities of the Group are the manufacture and sale of neural network and fuzzy processors, digital signal processors, 8-bit RISC micro-controllers, and integrated circuits for special use. The Group also offers research and development services with respect to the products presented above. The Group’s common shares were listed on the Taiwan Stock Exchange on September 17, 2001. Pursuant to the resolution of the shareholders’ meeting held on June 13, 2008, the Group acquired Elantech Devices Corp. (Elantech). The Group is the surviving company, and Elantech was dissolved after the acquisition, and the effective date of the acquisition was on October 1, 2008. Elantech was incorporated on September 18, 2003 as a company limited by shares under the laws of Taiwan, the Republic of China (ROC). Elantech was located in Zhonghe District, New Taipei City. The major business activities of Elantech were the research, manufacture, and sale of wireless and wired communication equipment and electronics modules. Please refer to note 4(c) for the main operating activities for Elan Microelectronics Corp. and its subsidiaries (collectively as the “Group”).

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2020.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

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

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

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

IFRS 16 “Leases”

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

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(k).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of office equipment.

● Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee’s incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$208,326 thousands of right-of-use assets and lease liabilities without an influence on retained earnings, respectively. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.79%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 59,245
Recognition exemption for:	
short-term leases	(958)
Extension and termination options reasonably certain to be exercised	205,937
	<u>\$ 264,224</u>
Discounted using the incremental borrowing rate at January 1, 2019	\$ 208,326
Lease liabilities recognized at January 1, 2019	<u>\$ 208,326</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

Those which may be relevant to the Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	<p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized bellows. Except for those specifically indicated, the following accounting policies were applied consistently throughout the presented periods in the consolidated financial statements.

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments at fair value through profit or loss are measured at fair value;
- 2) Fair value through other comprehensive income are measured at fair value; and
- 3) The defined benefit liabilities is recognized as the fair value of the plan assets less the present value of the defined benefit obligation.

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements.

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

List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding		Note
			December 31, 2019	December 31, 2018	
The Company	Elan Investment Corp.	Investment holding	100.00%	100.00%	-
The Company	Fong Yue Corporation	Investment holding	- %	100.00%	The liquidation of Fong Yue was approved by the Regulator in January 2019
The Company and Elan Investment Corp	Metanoia Communications Inc.(MetaCom)	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	67.86%	67.86%	-
The Company and Elan Investment Corp.	Avisonic Technology Corp. (Avisonic)	Research, design, develop, manufacture and sale on digital image-process chips	84.21%	81.00%	-
The Company	JPUP Electron Co., Ltd. (JPUP)	Wholesale and installation of electronic devices, data storage and equipment process	49.00%	49.00%	The Company owns 3 out of 5 seats in the board, and has a control interest over JPUP
The Company and Elan Investment Corp.	Pixord Corporation (Pixord)	Research, design, develop, manufacture and sale on Webcam and server	97.27%	97.27%	-
The Company	Elan H.K.	Sale and after-sales service	100.00%	100.00%	-
The Company	Elan Information	After-sales service and provide new informational skills	100.00%	100.00%	-
Elan H.K.	Power Asia	Investment holding	100.00%	100.00%	-
Power Asia	Elan Shanghai	Provide system design, information on applications expansion	100.00%	100.00%	-
Power Asia	Elan Shenzhen	Provide system design, information on applications expansion	100.00%	100.00%	-

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of translation.

Exchange differences are generally recognized in profit or loss, except for an investment in equity securities designated as at fair value through other comprehensive income which is recognized in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated into the Group's functional currency at average exchange rate. Exchange differences are recognized in other comprehensive income.

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

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

An entity shall classify an asset as current when:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

An entity shall classify a liability as current when:

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

An entity shall classify all other liabilities as non-current.

(f) Cash and cash equivalents

Cash comprise cash balances and call deposits. Cash equivalents are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

A time deposit is qualified as cash equivalent and must be held for the purpose of short term cash commitments rather than for investment or other purposes.

(g) Financial instruments

Accounts receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A accounts receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Group; therefore, those receivables are measured at FVOCI. However, they are included in the 'accounts receivables' line item.

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

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Impairment of financial assets

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

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

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

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

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

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

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

The Group considers a financial asset to be in default when the financial asset is more than 360 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

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

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 360 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities.

Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

4) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise short-term loans and borrowings, accounts payable and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized as finance cost under non-operating revenue and expenses. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expired. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The costs of inventories weighted-average principle include expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in process, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(i) Investments in associates

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

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

The consolidated financial reports include the Group's share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Group from the date on which significant influence commences until the date on which significant influence ceases.

Gains and losses resulting from the transactions between the Group and an associate are recognized only to the extent of unrelated the Group's interests in the associate.

When the Group's share of losses of an associate equals or exceeds its interest in an associates, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated. The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- 1) Buildings: 2~50 years;
- 2) Machineries and equipments: 2~6 years;
- 3) Transportation and office equipment: 2~6 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Group has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- 1) fixed payments;
- 2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 3) amounts expected to be payable under a residual value guarantee; and
- 4) payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- 1) there is a change in future lease payments arising from the change in an index or rate; or
- 2) there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- 3) there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- 4) there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- 5) there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery office and transportation that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Applicable before January 1, 2019

(i) Lessor

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

(ii) Lessee

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

The depreciable amount is the cost of an asset, less its residual value.

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The estimated useful lives for current and comparative periods are as follows:

Patents	1~5 years
Computer software cost	1~3 years

Amortization method, amortization period, and residual value for an intangible asset are reviewed at each reporting date and adjusted if appropriate.

(m) Impairment – non derivative financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets and investment properties and biological assets, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Provisions

A provision is recognized if, as a result of a past event, the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest expense.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(o) Revenue from contracts with customers

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

(i) Sale of goods

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

The Group recognizes accounts receivables upon the delivery of products, because the Group has unconditional rights to recovery of the consideration at that point in time.

(ii) Services

The Group provides product design and development services to its customers, and recognizes revenue during the reporting period when services are rendered. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is based on the percentage of actual cost incurred over the total costs.

(iii) Financing components

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

(p) Employee benefits

(i) Defined contribution plan

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

The Group that belongs to domestic firms should comply with the Labor Pension Act (hereinafter as "the Act"), which took effect on July 1, 2005. In accordance with the Act, the pension benefits of employees who elect to follow the Act and employees who are retired after the effective date of the Act adopt a defined contribution scheme, whereby the Group makes monthly contributions to the employees' individual pension accounts of no less than 6% of the employees' monthly wages. The amounts contributed are recognized as expense in the current period.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group that belongs to overseas firms (excluding Elan Information and Power Asia, which adopts the defined contribution pension plan) should contribute pension fund based on the local pension regulations and recognized the pension contributed as expense for that period. Subsidiaries in China should comply with the regulations of the Government in the People's Republic of China. The corporate contributes retirement annuity funds based on the statutory rate on authorized employees payroll and the pension expenses are recognized in profit or loss for the year.

(ii) Defined benefit plan

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when the related services are provided.

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

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(q) Income taxes

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

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

- (i) Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

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

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Business acquisition

For those acquisitions occurring after 1 January 2013 (inclusive), goodwill is measured using ROC GAAP.

The Group measured the acquisition cost of acquiring Elantech in accordance with the Statement of Financial Accounting Standards No. 25 “Business Combinations” and the Accounting Research and Development Foundation Interpretations 97 (075) and 91 (187). The stock issued by the Group is traded in an active market; therefore, the fair value of the stock issued by the Group should be used to determine the fair value of the net assets of the acquired corporation. The acquisition cost was measured in two ways. For stock acquired from non-affiliated companies, accounting was determined by using the purchase method; for stock acquired from affiliated companies, the purchase price was determined by the book value of the affiliated companies' investment in Elantech. The Group recognized the difference between the acquisition cost and the fair value of tangible assets and identifiable intangible assets, less, the liabilities, and recorded it as goodwill.

(s) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to the ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company, divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as employee stock options and convertible bonds settled using shares that have yet to be approved by the shareholders' meeting.

(t) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). The operating results of all operating segments are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment has its financial information.

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

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the sales price. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(d) for further description of the valuation of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Petty cash	\$ 353	620
Checking and demand deposits	1,101,958	1,036,803
Time deposits with maturities of three months or less	399,810	1,038,350
	<u>\$ 1,502,121</u>	<u>2,075,773</u>

Please refer to Note 6(s) for the interest rate risk and fair value sensitivity analysis of the financial assets and liabilities of the Group.

As of December 31, 2019 and 2018, time deposits with maturities of more than three months held by the Group amounted to \$2,289,450 thousand and \$1,759,480 thousand, respectively, and were recorded as other current financial assets. The Group did not recognize impairment loss on other current financial assets for the years ended December 31, 2019 and 2018. Other information relating to credit risk is provided in Note 6(s).

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

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss:		
Current:		
Listed stocks	\$ 6,680	9,639
Open-end certificates of beneficial interest	617,680	477,111
Short-term commercial papers	154,082	168,488
Subtotal	<u>778,442</u>	<u>655,238</u>
Non-current:		
Listed stocks	1,330,470	808,068
Unlisted funds	30,152	-
Subtotal	<u>1,360,622</u>	<u>808,068</u>
Total	<u>\$ 2,139,064</u>	<u>1,463,306</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	\$ 167,777	16,165
Accounts receivable - fair value through other comprehensive income	489,034	726,785
Accounts receivable - measured at amortized cost	566,854	404,992
Less: Loss allowance	(28,369)	(43,208)
	<u>\$ 1,195,296</u>	<u>1,104,734</u>

The Group has assessed a portion of its accounts receivables that was held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; therefore, such accounts receivables were measured at fair value through other comprehensive income.

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The allowance for doubtful accounts were determined as follows:

	December 31, 2019		
	Gross carrying amount	Weighted-ave rage loss rate	Expected credit loss
Current	\$ 1,135,366	0.14%	1,590
1 to 30 days past due	56,883	2.31%	1,314
31 to 60 days past due	6,830	12.98%	887
More than 90 days past due	24,586	50%~100%	24,578
	<u>\$ 1,223,665</u>		<u>28,369</u>

	December 31, 2018		
	Gross carrying amount	Weighted-ave rage loss rate	Expected credit loss
Current	\$ 1,003,142	0.18%	1,777
1 to 30 days past due	47,978	2.94%	1,411
31 to 60 days past due	26,378	15.92%	4,199
61 to 90 days past due	7,223	34.59%	2,498
More than 90 days past due	63,221	50%~100%	33,323
	<u>\$ 1,147,942</u>		<u>43,208</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2019	2018
Balance at January 1, 2019 and 2018	\$ 43,208	41,218
Impairment loss recognized (reversed)	(7,885)	1,990
Amounts written off	(6,954)	-
Balance at December 31, 2019 and 2018	<u>\$ 28,369</u>	<u>43,208</u>

The Group entered into non-recourse factoring agreements with different financial institutions to sell its accounts receivables. Under the agreements, the Group does not have the responsibility to assume the default risk of the transferred accounts receivables. The Group derecognized the above accounts receivables because it has transferred substantially all of the risks and rewards of their ownership, and it does not have any continuing involvement in them. The amounts receivable from the financial institutions were recognized as “other receivables” upon the derecognition of those accounts receivables.

December 31, 2019						
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Amount Recognized in Other Receivables	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 777,245</u>	<u>2,801,600</u>	<u>-</u>	<u>777,245</u>	<u>0.05%~0.10%</u>	None

December 31, 2018						
Purchaser	Accounts derecognized	Factoring Line	Advanced Amount	Amount Recognized in Other Receivables	Range of Interest Rate	Collateral
Financial Institution	<u>\$ 588,039</u>	<u>2,000,000</u>	<u>-</u>	<u>588,039</u>	<u>0.05%~0.12%</u>	None

The Group has deducted the advanced amount from the accounts receivable in accordance with the condition of derecognition as of December 31, 2019 and 2018. The remaining amount has been reclassified into other receivables. The Group did not recognize impairment loss on other receivables for the years ended December 31, 2019 and 2018, and other information on credit risk is disclosed in Note 6(s).

(d) Inventories

	December 31, 2019	December 31, 2018
Raw materials	\$ 384,562	423,928
Work in progress	717,574	503,874
Finished goods	284,066	228,451
	<u>\$ 1,386,202</u>	<u>1,156,253</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The details of the cost of sales are as follows:

	2019	2018
Inventory that has been sold	\$ 4,951,119	4,615,672
Write-down of inventories	123,050	93,385
Others	(124)	400
	<u>\$ 5,074,045</u>	<u>4,709,457</u>

As of December 31, 2019 and 2018, the Group did not provide any inventories as collateral for its loans.

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

	December 31, 2019	December 31, 2018
Equity investments at fair value through other comprehensive income:		
Emerging stocks	\$ 11,924	11,033
Quoted shares	179,909	241,067
	<u>\$ 191,833</u>	<u>252,100</u>

(i) The Group designated the investments shown above as equity securities at fair value through other comprehensive income because these equity securities were held for long-term strategic purposes instead of for trading.

(ii) In 2019, the Group has sold its shares held in Fitipower Integrated Technology Inc., with a fair value of \$86,015 thousand, resulting in the Group to realize a gain of \$66,937 thousand, which was recognized as other comprehensive income, then reclassified to retained earnings. No strategic investments were disposed as of December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(iii) For market risk, please refer to note 6(s).

(iv) As of December 31, 2019 and 2018, the Group did not provide any financial assets as collateral for its loans.

(f) Investments accounted for using equity method

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

	December 31, 2019	December 31, 2018
Associates	<u>\$ 330,837</u>	<u>246,562</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The related information on the original cost investments of the associates was as follows:

			December 31, 2019		December 31, 2018	
			Principal country	Shareholdin g (%)	Amount	Shareholdin g (%)
	Nature of the relationship					
Tong Fu Investment Corporation	Investment holding	R.O.C.	\$ 30,000	46.73	30,000	46.73
Eminent Electronic Technology Corp. Ltd. (note)	Manufactures and sells electronic devices, computer and its related products, and manufactures optical instruments	R.O.C.	19,520	45.07	19,520	45.07
Top Taiwan X Venture Capital Co. Ltd	Venture capital	R.O.C.	90,582	43.98	38,381	29.89
Uniband Electronic Corp	Manufactures and sells electronic devices	R.O.C.	240,000	30.00	240,000	30.00
Finger Pro. Incorporation	Manufactures and sells electronic devices	R.O.C.	50,000	24.69	80,000	23.12
Lighting Device Technologies Crop.	Research, design, develop, manufacture and sale on LED chips	R.O.C.	6,000	23.08	6,000	23.08
RONG CHENG Technology	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	R.O.C.	77,706	38.46	77,706	38.46
			<u>\$ 513,808</u>		<u>491,607</u>	

Note: Eminent Electronic Technology Corp. Ltd. is owned by the Company and one of its subsidiaries, Elan Investment Corp. For original investment amount and percentage of ownership as of December 31, 2019, please refer to note 13.

(i) Associates

A summary of the Group's financial information for investment accounted for using equity method at the reporting date is as follows:

	2019	2018
The Group's share of gain (loss) of associates accounted for using equity method	<u>\$ 45,682</u>	<u>(39,386)</u>

The Group's financial information for investments accounted for using the equity method that are individually insignificant were as follows:

	2019	2018
Attributable to the Group:		
Gain (loss) from continuing operations	\$ 45,682	(39,386)
Other comprehensive income (loss)	(37)	(1,399)
Comprehensive income (loss)	<u>\$ 45,645</u>	<u>(40,785)</u>

The Group recognized \$20,000 thousand in prepayments for investments against Rising Star Technology Company Limited as of December 31, 2019.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group recognized \$15,000 thousand and \$10,808 thousand in impairment losses against Eminent Electronic Technology Crop. Ltd. and Tong Fu Investment Corporation for the year ended December 31, 2018, respectively.

(ii) Pledges

As of December 31, 2019 and 2018, the Group did not provide any investments accounted for using the equity method as collateral for its loans.

(g) Property, plant and equipment

The movements of cost and accumulated depreciation of property, plant and equipment were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office and transportation equipment</u>	<u>Equipment awaiting examination</u>	<u>Total</u>
Cost:						
Balance as of January 1, 2019	\$ 230,790	1,084,414	473,062	145,534	33,067	1,966,867
Additions	-	5,308	25,115	11,830	8,655	50,908
Derecognized	-	-	(5,460)	(5,420)	-	(10,880)
Reclassification	-	105	26,187	(61)	(33,155)	(6,924)
Effect of exchange rate changes	-	-	(272)	(289)	-	(561)
Balance as of December 31, 2019	<u>\$ 230,790</u>	<u>1,089,827</u>	<u>518,632</u>	<u>151,594</u>	<u>8,567</u>	<u>1,999,410</u>
Balance as of January 1, 2018	\$ 118,813	1,027,131	440,080	147,002	14,833	1,747,859
Additions	111,977	56,749	31,668	5,286	35,147	240,827
Derecognized	-	-	(8,326)	(6,537)	-	(14,863)
Reclassification	-	534	9,818	-	(16,913)	(6,561)
Effect of exchange rate changes	-	-	(178)	(217)	-	(395)
Balance as of December 31, 2018	<u>\$ 230,790</u>	<u>1,084,414</u>	<u>473,062</u>	<u>145,534</u>	<u>33,067</u>	<u>1,966,867</u>
Accumulated depreciation:						
Balance as of January 1, 2019	\$ -	660,712	405,140	133,141	-	1,198,993
Depreciation	-	16,955	27,783	6,236	-	50,974
Derecognized	-	-	(5,404)	(5,200)	-	(10,604)
Effect of exchange rate changes	-	-	(243)	(247)	-	(490)
Balance as of December 31, 2019	<u>\$ -</u>	<u>677,667</u>	<u>427,276</u>	<u>133,930</u>	<u>-</u>	<u>1,238,873</u>
Balance as of January 1, 2018	\$ -	645,152	390,294	132,403	-	1,167,849
Depreciation	-	15,560	23,330	7,463	-	46,353
Derecognized	-	-	(8,326)	(6,537)	-	(14,863)
Effect of exchange rate changes	-	-	(158)	(188)	-	(346)
Balance as of December 31, 2018	<u>\$ -</u>	<u>660,712</u>	<u>405,140</u>	<u>133,141</u>	<u>-</u>	<u>1,198,993</u>
Carrying value:						
Balance as of December 31, 2019	<u>\$ 230,790</u>	<u>412,160</u>	<u>91,356</u>	<u>17,664</u>	<u>8,567</u>	<u>760,537</u>
Balance as of December 31, 2018	<u>\$ 230,790</u>	<u>423,702</u>	<u>67,922</u>	<u>12,393</u>	<u>33,067</u>	<u>767,874</u>

As of December 31, 2019 and 2018, the Group did not provide any properties, plant and equipment as collateral for its loans.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(h) Right-of-use assets

The Group leases many assets including land and buildings, machinery and equipment. Information about leases for which the Group as a lessee is presented below:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Total</u>
Cost:					
Balance as of January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	186,140	22,186	-	-	208,326
Balance at January 1, 2019 after adjustment	186,140	22,186	-	-	208,326
Purchases	-	31,755	375	8,847	40,977
Derecognized	-	(13,113)	-	-	(13,113)
Effect of changes in foreign exchange rates	-	(161)	-	-	(161)
Balance as of December 31, 2019	<u>\$ 186,140</u>	<u>40,667</u>	<u>375</u>	<u>8,847</u>	<u>236,029</u>
Accumulated depreciation and impairment losses:					
Balance at January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	-	-	-	-	-
Balance at January 1, 2019 after adjustment	-	-	-	-	-
Depreciation for the year	5,570	18,061	237	1,715	25,583
Derecognized	-	(9,887)	-	-	(9,887)
Effect of changes in foreign exchange rates	-	(150)	-	-	(150)
Balance as of December 31, 2019	<u>\$ 5,570</u>	<u>8,024</u>	<u>237</u>	<u>1,715</u>	<u>15,546</u>
Book value:					
Balance as of January 1, 2019	<u>\$ 186,140</u>	<u>22,186</u>	<u>-</u>	<u>-</u>	<u>208,326</u>
Balance as of December 31, 2019	<u>\$ 180,570</u>	<u>32,643</u>	<u>138</u>	<u>7,132</u>	<u>220,483</u>

(i) Intangible assets

The movements of cost and accumulated amortization of intangible assets were as follows:

	<u>Goodwill</u>	<u>Technical Know-how</u>	<u>Computer software</u>	<u>Total</u>
Cost:				
Balance as of January 1, 2019	\$ 176,838	91,504	146,195	414,537
Additions	-	98,607	27,317	125,924
Derecognized	-	(36,274)	(12,115)	(48,389)
Effects of exchange rate changes	-	-	(33)	(33)
Balance as of December 31, 2019	<u>\$ 176,838</u>	<u>153,837</u>	<u>161,364</u>	<u>492,039</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Goodwill	Technical Know-how	Computer software	Total
Balance as of January 1, 2018	\$ 176,838	94,405	145,734	416,977
Additions	-	7,854	11,037	18,891
Derecognized	-	(10,755)	(10,555)	(21,310)
Effects of exchange rate changes	-	-	(21)	(21)
Balance as of December 31, 2018	\$ 176,838	91,504	146,195	414,537
Accumulated amortization:				
Balance as of January 1, 2019	\$ -	82,862	106,356	189,218
Additions	-	12,339	34,684	47,023
Derecognized	-	(36,274)	(12,115)	(48,389)
Effects of exchange rate changes	-	-	(32)	(32)
Balance as of December 31, 2019	\$ -	58,927	128,893	187,820
Balance as of January 1, 2018	\$ -	77,309	83,395	160,704
Additions	-	16,308	33,537	49,845
Derecognized	-	(10,755)	(10,555)	(21,310)
Effects of exchange rate changes	-	-	(21)	(21)
Balance as of December 31, 2018	\$ -	82,862	106,356	189,218
Book value:				
Balance as of December 31, 2019	\$ 176,838	94,910	32,471	304,219
Balance as of December 31, 2018	\$ 176,838	8,642	39,839	225,319

(i) Impairment testing for goodwill

- For the Company's impairment testing purposes, goodwill has been allocated to the operating units testing purpose. The units are the minimum level for the Group's goodwill, which should not be higher than the Group's operating divisions.

The carrying amounts of goodwill were as follow:

	December 31, 2019	December 31, 2018
Laptop input device business cash-generating units	\$ 160,600	160,600
Network communication business cash-generating units	16,238	16,238
	\$ 176,838	176,838

- The recoverable amounts of laptop input device business and network communication business cash-generating unit(CGU) were based on their value-in-use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The key assumptions used in the estimation of the value-in-use were as follows:

	December 31, 2019	December 31, 2018
Revenue growth rate	5%	4%
After-tax discount rate	9.88%	5.16%

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The key assumptions represents the management's evaluation of the future industry trends, wherein the external, internal and also historical information, were considered. There were no impairment losses incurred as of December 31, 2019 and 2018.

- (ii) For the years ended December 31, 2019 and 2018, the Group did not recognize any impairment loss. Amortization expenses were recorded as follows:

	2019	2018
Operating cost	<u>\$ 4,079</u>	<u>4,454</u>
Operating expense	<u>\$ 42,944</u>	<u>45,391</u>

- (j) Short-term borrowings

The short-term borrowings were summarized as follows:

	December 31, 2019	December 31, 2018
Unsecured bank loans	<u>\$ 241,000</u>	<u>243,000</u>
Range of interest rate	<u>1.69%~2.60%</u>	<u>1.69%~2.50%</u>
Unused short-term credit lines	<u>\$ 497,000</u>	<u>367,000</u>

Refer to note 6(s) for the interest rate risk and fair value sensitivity analysis of the financial assets and liabilities of the Group.

- (k) Lease liabilities

The lease liabilities was as follows:

	December 31, 2019
Current	<u>\$ 21,279</u>
Non-current	<u>\$ 200,563</u>

For the maturity analysis, please refer to note 6(s).

The amounts recognized in profit or loss was as follows:

	2019
Interest on lease liabilities	<u>\$ 3,782</u>
Expenses relating to short-term leases	<u>\$ 3,242</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 34</u>

The amounts recognized in the statement of cash flows for the Group was as follows:

	2019
Total cash outflow for leases	<u>\$ 34,674</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) Real estate leases

As of December 31, 2019, the Group leases land and buildings for its office space. The lease of land typically run for a period of 20 years, and of buildings for 2-3 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. Some leases provide for additional rent payments that are based on changes in local price indices.

(ii) Other leases

The Group leases machinery and equipment, with lease terms of one year. These leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. The Group leases its office and transportation equipment, with lease terms ranging from one to three years. These leases are short-term or leases of low-value items which the Group has elected not to recognize its right-of-use assets and lease liabilities for these leases.

(l) Employee benefits

(i) Defined benefit plans

Reconciliations of defined benefit obligation at present value and plan assets at fair value were as follows:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligation	\$ 453,762	457,216
Fair value of plan assets	(81,389)	(78,397)
Net defined benefit liabilities	<u>\$ 372,373</u>	<u>378,819</u>

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

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$81,606 thousand as of December 31, 2019. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations of the Group were as follows:

	2019	2018
Defined benefit obligations at January 1	\$ 457,216	486,993
Current service cost and interest cost	7,953	9,321
Net remeasurements of defined benefit liability (asset)		
— Actuarial gains and losses arising from financial assumptions	15,123	15,906
— Actuarial gains and losses arising from experience adjustments	(17,294)	(18,704)
Past service credit	(1,092)	(699)
Benefits paid	(8,144)	(35,601)
Defined benefit obligations at December 31	<u>\$ 453,762</u>	<u>457,216</u>

3) Movements of plan assets

The movements in the fair value of plan assets of the Group were as follows:

	2019	2018
Fair value of plan assets, January 1	\$ 78,397	90,786
Interests revenue	1,093	1,493
Net remeasurements of defined benefit liability (asset)		
— Return on plan assets (interest income for the year not included)	2,797	2,106
Contributions	5,843	5,941
Benefits paid	(6,741)	(21,929)
Fair value of plan assets at December 31	<u>\$ 81,389</u>	<u>78,397</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Expenses recognized in profit or loss

The Group's expenses recognized in profit or loss for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Current service costs	\$ 1,693	1,441
Net interest of net liabilities for defined benefit obligations	5,167	6,387
Curtailment or settlement gains	(1,092)	(699)
	<u>\$ 5,768</u>	<u>7,129</u>

	2019	2018
Operating cost	\$ 570	676
Selling expenses	358	488
Administration expenses	146	532
Research and development expenses	4,694	5,433
	<u>\$ 5,768</u>	<u>7,129</u>

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

The Group's remeasurement values of net defined benefit liabilities (assets) recognized in other comprehensive income for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Accumulated amount at January 1	\$ (3,817)	1,087
Recognized during the period	(4,968)	(4,904)
Accumulated amount at December 31	<u>\$ (8,785)</u>	<u>(3,817)</u>

6) Actuarial assumptions

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

	December 31, 2019	December 31, 2018
Discount rate	1.000%~1.125 %	1.125%~1.375 %
Future salary increase rate	1.00%~5.00%	1.00%~5.00%

The expected allocation payment to be made by the Group to the defined benefit plans for one-year period after the reporting date was \$5,799 thousand.

As of December 31, 2019 and 2018, the weighted average lifetime of the defined benefits plans were 16.39 and 17.25 years.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

7) Sensitivity analysis

Calculations of the present value of the defined benefit obligation were based on the judgements and estimates made on the actuarial assumptions as of the balance sheet date, including discount rate, employee turnover rate and future salary changes. Any possible changes in the actuarial assumptions would affect the defined benefit obligation at the reporting date.

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Defined benefit obligation	
	Increase by 0.25%	Decrease by 0.25%
December 31, 2019		
Discount rate	\$ (14,977)	15,616
Future salary increasing rate	14,714	(14,188)
December 31, 2018		
Discount rate	(15,978)	16,716
Future salary increasing rate	15,784	(15,189)

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(ii) Defined contribution plans

The Group's expenses under the pension plan cost to the Bureau of Labor Insurance for the and years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Operating cost	\$ 7,389	7,380
Selling expenses	8,263	5,454
Administration expenses	5,053	8,100
Research and development expenses	44,202	42,432
	\$ 64,907	63,366

(m) Income taxes

- (i) The Group is able to avail itself of tax exemptions from its committed capital for expansion in the following years through the proceeds from common stock issuance that conform to the prescribed criteria under the "Statute for Upgrading Industries" as follows:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Group	Year	Tax exemption products	Tax exemption period
Parent Group-the Company	2009	to produce and sell high-level integrated circuits	The Company was granted approval from the Industrial Development Bureau, MOEA, on December 16, 2009. The Company had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.
Subsidiary-MetaCom	2009	to produce and sell high-level integrated circuits	MetaCom was granted approval from the Industrial Development Bureau, MOEA, on October 5, 2009. MetaCom had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.
Subsidiary-Avisonic	2007	to produce and sell high-level integrated circuits	Avisonic was granted approval from the Industrial Development Bureau, MOEA, on January 29, 2008. Avisonic had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to November 30, 2019.
Subsidiary-Avisonic	2009	to produce and sell high-level integrated circuits	Avisonic was granted approval from the Industrial Development Bureau, MOEA, on December 17, 2009. Avisonic had obtained the certification of completion of the expansion project. The tax exemption period is from January 1, 2016, to December 31, 2020.

- (ii) The Group is subject to Taiwan income tax at rates of 20% for 2019 and 2018, and also adopted the “Income Basic Tax Act” to calculate the tax. Elan Information is registered in California, United States of America, and it is subject to a Federal corporate income tax rate of 34%. The taxable income of Elan Hong Kong amounting to HKD\$2,000 thousand is subject to a 2nd tier income tax at rates of 8.25%, and others at the rate of 16.5%. The income tax rate of Elan Shanghai and Elan Shenzhen is 25%. Power Asia is registered in Mauritius where international group entities, under local provisions, are exempted from corporate income tax.

The Group’s income tax expenses were as follow:

	2019	2018
Current income tax expense	\$ 347,110	342,427
Deferred income tax expense	(2,192)	(4,061)
Income tax expense	\$ 344,918	338,366

The reconciliation of the differences between the income tax computed at the statutory income tax rate and the income tax expense for the years ended December 31, 2019 and 2018 is summarized as follows:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2019	2018
Income before income tax	\$ 2,809,660	1,870,068
Income tax computed at statutory tax rate	\$ 561,932	374,014
Effect of tax rates in foreign jurisdiction	(3,702)	16,587
Investment tax credit	(47,597)	(33,694)
Investment income from domestic securities	(97,307)	-
Suspension of tax-exempt gain on disposal of domestic securities	(729)	(317)
Effect of tax-exempt gain on investment deducted from loss carry forward	8,150	-
Tax-exempt gain on dividend revenue of domestic securities	(5,337)	(2,286)
Tax-exempt income	-	(831)
Change in unrecognized temporary differences	(89,345)	(29,602)
Prior year' s income tax adjustment	(3,367)	(2,991)
Adjustment in tax rate	-	(4,149)
The amount of expired loss carry forward	31,610	31,123
Others	(9,390)	(9,488)
Total	\$ 344,918	338,366

(iii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

The Group' s unrecognized deferred income tax assets were composed of the following items:

	December 31, 2019	December 31, 2018
Realized valuation losses on long-term investment	\$ 469,576	559,355
Tax-deductible loss	401,176	399,254
Unfunded pension expense	96,485	97,905
Provision for decline in value of inventories	32,009	28,571
Others	4,789	8,295
	\$ 1,004,035	1,093,380

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Regarding the deductible temporary differences from investment tax credit, the deferred tax assets have not been recognized in respect of these items because it is not probable that the future taxable gain on disposal of securities will be available against which the Group can utilize the benefits therefrom. The ROC Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets were not recognized, as management determined that it is not probable that there will be sufficient taxable gains in the future.

As of December 31, 2019 the net losses that have not been recognized as deferred tax assets and the expiration years were as follows:

a) Domestic consolidated entities

<u>Year of loss</u>	<u>Year of expiry</u>	<u>Unused amount</u>
2010	2020	\$ 133,532
2011	2021	143,053
2012	2022	217,892
2013	2023	233,882
2014	2024	263,203
2015	2025	255,813
2016	2026	272,429
2017	2027	192,406
2018	2028	131,879
2019	2029	140,348
		<u><u>\$ 1,984,437</u></u>

b) Foreign consolidated entities

	<u>Applicable years</u>	<u>Unused amount</u>
Elan Information	2020-2031	<u><u>\$ 12,615</u></u>

2) Recognized deferred income tax assets and liabilities

Movements of recognized deferred income tax assets and liabilities for the years ended December 31, 2019 and 2018 were as follows:

Deferred Tax Liabilities:

	<u>Unrealized Foreign Exchange Gains</u>	<u>Fair Value Gains</u>	<u>Total</u>
Balance at January 1, 2019	\$ -	(2,248)	(2,248)
Recognized in profit or loss	-	151	151
Balance at December 31, 2019	<u>\$ -</u>	<u>(2,097)</u>	<u>(2,097)</u>
Balance at January 1, 2018	\$ (840)	(1,456)	(2,296)
Recognized in profit or loss	840	(792)	48
Balance at December 31, 2018	<u>\$ -</u>	<u>(2,248)</u>	<u>(2,248)</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Deferred Tax Assets:

	Decline in Value of Inventories	Others	Total
Balance at January 1, 2019	\$ 24,113	5,708	29,821
Recognized in profit or loss	2,592	(551)	2,041
Balance at December 31, 2019	\$ 26,705	5,157	31,862
Balance at January 1, 2018	\$ 22,164	3,644	25,808
Recognized in profit or loss	1,949	2,064	4,013
Balance at December 31, 2018	\$ 24,113	5,708	29,821

(iv) The tax authorities have examined the Company's income tax return for the year 2016.

(n) Capital and other equity

(i) Ordinary share

As of December 31, 2019 and 2018, the authorized capital of the Company amounted to \$4,800,000 thousand, which was divided into 303,880 thousand shares, each at a par value of \$10 on common stock. The issued capital was composed of common stocks only and have been fully paid-up.

The Company held a shareholders' meeting on June 11, 2018 to approve a capital reduction through cash return to its shareholders amounting to \$1,302,344 thousand, which represented a cancellation of \$130,234 thousand shares (30% of common shares), for the purposes of adjusting the Company's capital structure and to increase the return on equity. This capital reduction was approved by the FSC on August 10, 2018. The Company's Board of Directors approved the effective cash return date as August 27, 2018. The Company had registered this capital reduction with MOEA and the actual cash distribution date was on October 24, 2018.

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2019	December 31, 2018
Additional paid-in capital	\$ 231,051	337,409
Treasury share transactions	144,894	87,057
Difference arising from subsidiary's share price and its carrying value	-	19,567
	\$ 375,945	444,033

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In accordance with the Companies Act, realized capital surplus can only be reclassified as share capital or distributed as cash dividends after offsetting against losses. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

In pursuant to the resolution of annual shareholders meeting held on June 11, 2018, the Company declared a cash dividend of \$0.28 per share, amounting to \$121,552 thousand from capital surplus, distributed via \$121,552 thousand from additional paid-in capital.

In pursuant to the resolution of annual shareholders meeting held on June 10, 2019, the Company declared a cash dividend of \$0.35 per share, amounting to \$106,358 thousand from capital surplus, distributed via \$106,358 thousand from additional paid-in capital.

(iii) Retained earnings

According to the Company's articles of incorporation, annual earnings after income tax shall be first used to offset any deficit, then be appropriated 10% as legal reserve, and subsequently appropriate for special reserve. The surplus to be distributed for the current year shall not be lower than 50% of accumulated attributable retained earnings. Cash dividends shall not be lower than 10% of total dividends.

1) Legal reserve

In accordance with the Companies Act, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve, either by new shares or by cash of up to 25 percent of the actual capital.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the current-period total net reduction of other shareholders' equity. Such special reserve will be available for dividend distribution only after the related shareholders' equity reduction has been reversed by the approval of the shareholders' meeting.

3) Earnings distribution

On June 10, 2019 and June 11, 2018, the shareholder's meetings resolved to distribute the 2018 and 2017 earnings via cash dividend. The Company declared a cash dividend of \$4.65 and \$2.30 per share, amounting to \$1,413,044 thousand and \$998,464 thousand, respectively, for the year 2018 and 2017.

There was no difference between the actual distribution and estimation in the financial statements of 2018 and 2017.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Treasury stock

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Shares (in thousands)</u>	<u>Amounts</u>	<u>Shares (in thousands)</u>	<u>Amounts</u>
The Company' s shares held by subsidiaries	<u>12,438</u>	<u>\$ 28,975</u>	<u>12,438</u>	<u>33,328</u>

Elan Investment Corp., a subsidiary of the Company, invested in Elantech before the Company acquired Elantech, and held the Company' s stock after the Company' s acquisition of Elantech. For the years ended December 31, 2019 and 2018, the information on the Company' s stock held by Elan Investment Corp. was as follows:

	<u>For the years ended December 31</u>					
	<u>2019</u>			<u>2018</u>		
	<u>Shares (in thousands)</u>	<u>Acquisition cost</u>	<u>Total market value</u>	<u>Shares (in thousands)</u>	<u>Acquisition cost</u>	<u>Total market value</u>
Opening balance	12,438	\$ 33,328	935,353	17,754	91,111	818,450
Effects of valuation change	-	-	199,011	-	-	116,903
Shares buy-back of parent company share due to capital reduction on odd lots	-	-	-	10	449	-
Cash dividend from capital surplus	-	(4,353)	-	-	(4,971)	-
Capital reduction	-	-	-	(5,326)	(53,261)	-
Ending balance	<u>12,438</u>	<u>\$ 28,975</u>	<u>1,134,364</u>	<u>12,438</u>	<u>33,328</u>	<u>935,353</u>

The Company transferred cash dividend revenue received by Elan Investment Corp. amounting to \$57,838 thousand and \$40,834 thousand to capital surplus-treasury stock in 2019 and 2018, respectively.

(v) Other equity

The movements of other equity were as follows:

	<u>For the year ended December 31, 2019</u>		
	<u>Foreign exchange differences arising from foreign operation</u>	<u>Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income</u>	<u>Total</u>
Balance as of January 1	\$ (4,219)	176,242	172,023
Foreign exchange differences:			
The Group	(1,281)	-	(1,281)
Associates	(37)	-	(37)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income			
The Group	-	26,142	26,142
The Group — disposal	-	(66,937)	(66,937)
Balance as of December 31	<u>\$ (5,537)</u>	<u>135,447</u>	<u>129,910</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the year ended December 31, 2018		
	Foreign exchange differences arising from foreign operation	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total
Balance as of January 1	\$ (4,060)	151,839	147,779
Foreign exchange differences:			
The Group	(139)	-	(139)
Associates	(20)	-	(20)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income			
The Group	-	25,782	25,782
Associates	-	(1,379)	(1,379)
Balance as of December 31	<u>\$ (4,219)</u>	<u>176,242</u>	<u>172,023</u>

(o) **Earnings per share**

Basic and diluted earnings per share for the years ended December 31, 2019 and 2018 were calculated as follows:

(i) **Basic earnings per share:**

	2019	2018
Net income	<u>\$ 2,496,744</u>	<u>1,559,580</u>
Weighted-average number of shares outstanding (thousands)	<u>291,442</u>	<u>374,723</u>
Earnings per share	<u>\$ 8.57</u>	<u>4.16</u>

(ii) **Diluted earnings per share:**

	2019	2018
Net income (used to calculate diluted earnings per share)	<u>\$ 2,496,744</u>	<u>1,559,580</u>
Weighted-average number of shares outstanding (thousands)	291,442	374,723
Effect of dilutive potential common stock (thousands)		
— employee emoluments	4,366	3,882
Weighted-average number of shares outstanding (thousands) used to calculate diluted earnings per share	<u>295,808</u>	<u>378,605</u>
Diluted earnings per share	<u>\$ 8.44</u>	<u>4.12</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	2019	2018
Taiwan	\$ 987,990	933,868
Mainland China	2,020,647	1,842,851
Hong Kong	6,424,206	5,792,145
America	16,222	45,552
Europe	6,173	3,296
Other	32,739	33,620
	<u>\$ 9,487,977</u>	<u>8,651,332</u>

For details on revenue for the year ended December 31, 2019, please refer to note 14.

(ii) Contract balances

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

(q) Non-operating income and expenses

(i) Other income

	2019	2018
Interest income	\$ 41,410	43,857
Rental income	1,951	2,106
Dividend income	25,295	11,434
Government grant	29,400	6,300
Others	23,298	7,455
Total	<u>\$ 121,354</u>	<u>71,152</u>

(ii) Other gains and losses

	2019	2018
Foreign exchange gains (losses)	\$ (26,734)	40,316
Gains on financial asset at fair value through profit or loss	601,235	100,218
Loss on disposal of property, plant and equipment	(678)	(387)
Impairment loss	-	(25,808)
Others	11	-
Total	<u>\$ 573,834</u>	<u>114,339</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employees' compensation and directors' and supervisors' remuneration

According to the Company's Articles of Incorporation, should the Company net a profit for the year, it shall allocate not less than 10% of the profit as employees' compensation and not more than 2% of the profit as directors' and supervisor's remuneration. Should the Company have accumulated losses, it shall first allocate its earnings to offset these losses.

For the years ended December 31, 2019 and 2018, the amounts of employees' bonuses were estimated at \$339,000 thousand and \$226,000 thousand respectively. The amounts remuneration to directors and supervisors were estimated at \$43,500 thousand and \$29,000 thousand respectively. The estimation basis shall be calculated as the amounts of net income before tax deducted employees', directors' and supervisors' bonuses, multiplied distributed percentage of employees' bonuses, directors' and supervisors' remuneration based on the Corporation's articles of incorporation. These bonuses and remuneration were expensed under operating costs or expenses for year 2019 and 2018. However, there were no differences between the distribution amounts of bonuses and remuneration decided by board mentioned above and the estimated amounts of the Company's Notes to the Consolidated Financial Statements in 2019 and 2018.

(s) Financial instruments

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of credit risk

The major customers of the Group are centralized in the high tech computer industry. To minimize credit risk, the Group periodically evaluates the financial positions of clients and the possibility of collecting accounts receivables. Where necessary, the Group will require the customers to provide guarantees or collateral against their debts.

Further more, the Consolidated Company monitors and reviews the recoverable amount of the accounts receivables to ensure the uncollectible amount is recognized appropriately as impairment loss.

As of December 31, 2019 and 2018, 74% and 75%, respectively, of accounts receivable were composed by ten major customers. Thus, credit risk is significantly centralized.

3) Receivables and debt securities

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

Other financial assets at amortized cost, including time deposits with maturities of more than three months and other receivables, are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g). There was no loss allowance provision for the years ended December 31, 2019 and 2018, respectively.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including the estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Con-tract ual cash flows	Within 6 mths	6-12 mths	1-2 years	2-5 years	More than 5 years
December 31, 2019							
Non-derivative financial liabilities							
Short-term borrowings	\$ 241,000	243,878	106,924	136,954	-	-	-
Notes and accounts payable	1,169,761	1,169,761	1,169,761	-	-	-	-
Others payables	537,940	537,940	537,940	-	-	-	-
Lease liabilities	221,842	275,195	13,649	11,707	20,956	31,618	197,265
	\$ 2,170,543	2,226,774	1,828,274	148,661	20,956	31,618	197,265
December 31, 2018							
Non-derivative financial liabilities							
Short-term loans	\$ 243,000	244,739	194,552	50,187	-	-	-
Notes and accounts payable	975,578	975,578	975,578	-	-	-	-
Other payables	1,316,133	1,316,133	1,316,133	-	-	-	-
	\$ 2,534,711	2,536,450	2,486,263	50,187	-	-	-

The Group is not expecting the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2019			December 31, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets:						
<u>Monetary item</u>						
US dollar	\$ 89,403	30.04	2,685,660	79,460	30.71	2,440,229
Financial liabilities:						
<u>Monetary item</u>						
US dollar	48,543	30.04	1,458,234	29,696	30.71	911,961

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the retranslation of foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency. A 5% of appreciation (depreciation) of the TWD against the USD as of December 31, 2019 and 2018 would have increased (decreased) the equity by \$49,097 thousand and \$61,131 thousand, respectively, for the years ended December 31, 2019 and 2018, assuming all other factors remained constant. The analysis is performed on the same basis in 2019 and 2018.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The foreign exchange gains or losses were disclosed on an aggregate basis as there were various types of functional currencies in the Group. The foreign exchange gains and losses (including realized and unrealized) amounted to \$26,734 thousand and \$40,316 thousand for the years ended December 31, 2019 and 2018, respectively.

(iv) Interest rate analysis

The Group's exposure to interest rate risk of financial assets and liabilities was disclosed under liquidity risk of the note.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on reporting date. For variable rates on assets and liabilities, the sensitivity analysis assumes the variable rates on assets and liabilities are outstanding for the whole year on the reporting date. The Group's internal department reported the increases/decreases in the interest rates and the exposure to changes in interest rates on 0.5% on behalf of the Group's key management so as to allow the key management to assess the reasonableness of the changes in the interest rates.

If the interest rate increases/decreases by 0.5%, the Group's net income will increase/decrease by \$1,646 thousand and \$1,603 thousand for the years ended December 31, 2019 and 2018, respectively, with all other variable factors that remain constant. This is mainly due to the Group's time deposits and borrowings in variable rates.

(v) Other market price risk

For the years ended December 31, 2019 and 2018, the sensitivity analyses for the changes in the securities prices at the reporting date were performed using the same basis for the profit and loss as illustrated below:

Prices of securities at the reporting date	2019		2018	
	Other comprehensive income after tax	Net income	Other comprehensive income after tax	Net income
Increase 5%	\$ 7,673	53,486	9,785	40,872
Decrease 5%	\$ (7,673)	(53,486)	(9,785)	(40,872)

(vi) Fair value of financial instruments

1) Fair value hierarchy

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019					
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss (current and non-current)	\$ 2,139,064	1,345,556	154,082	639,426	2,139,064
Financial assets measured at fair value through other comprehensive income					
Stocks	191,833	179,909	-	11,924	191,833
Accounts receivable	489,034	-	-	-	-
Subtotal	680,867	179,909	-	11,924	191,833
Financial assets measured at amortized cost					
Cash and cash equivalents	1,502,121	-	-	-	-
Notes and accounts receivables	734,631	-	-	-	-
Other receivables	835,141	-	-	-	-
Other financial assets-current	2,289,450	-	-	-	-
Guarantee deposits	10,770	-	-	-	-
Subtotal	5,372,113	-	-	-	-
Total	\$ 8,192,044	1,525,465	154,082	651,350	2,330,897
Financial liabilities measured at amortized cost					
Bank loans	\$ 241,000	-	-	-	-
Notes and accounts payables	1,169,761	-	-	-	-
Other payables	1,347,028	-	-	-	-
Lease liabilities (current and non-current)	221,842	-	-	-	-
Guarantee deposits	10,766	-	-	-	-
Total	\$ 2,990,397	-	-	-	-
December 31, 2018					
	Book value	Fair Value			total
		Level 1	Level 2	Level 3	
Financial assets at FVTPL (current and non-current)	\$ 1,463,306	486,750	168,488	808,068	1,463,306
Financial assets at FVOCI					
Stocks	252,100	241,067	-	11,033	252,100
Accounts receivable	726,785	-	-	-	-
Subtotal	978,885	241,067	-	11,033	252,100
Financial assets measured at amortized cost					
Cash and cash equivalents	2,075,773	-	-	-	-
Investments in debt investments without active market	421,157	-	-	-	-
Notes and accounts receivables	658,085	-	-	-	-
Other receivables	1,759,480	-	-	-	-
Other financial assets-current	11,231	-	-	-	-
Subtotal	4,925,726	-	-	-	-
Total	\$ 7,367,917	727,817	168,488	819,101	1,715,406
Financial liabilities measured at amortized costs					
Bank loans	\$ 243,000	-	-	-	-
Notes and trade payables	975,578	-	-	-	-
Other payables	1,340,084	-	-	-	-
Guarantee deposits	10,677	-	-	-	-
Total	\$ 2,569,339	-	-	-	-

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Valuation techniques for financial instruments measured at fair value

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Measurements of fair value of financial instruments without an active market are based on valuation technique or quoted price from a competitor. Fair value, measured by using valuation technique that can be extrapolated from either similar financial instruments or discounted cash flow method or other valuation techniques, including models, is calculated based on available market data at the reporting date. (For example, over the counter yield curve and Reuters Primary CP Rate average prices.)

If the Group's financial instruments do not have an active market, their fair value classifications are determined to be equity instruments with no observable prices, and their fair values are estimated by comparing with competitors whose market prices are available. The main assumption used in this estimation is to calculate the product of the earnings before interest, tax, depreciation and amortization and the price to earnings ratio of listed companies on the stock market. This estimate is discounted by the fact that the equity is not readily available to be traded because there is no active market.

3) Transfers between Level 1 and Level 2

There were no transfers of financial instruments made between any levels for the years ended December 31, 2019 and 2018.

4) Reconciliation of Level 3 fair values

	Non derivative mandatorily measured at fair value through profit or loss (held-for-trading financial assets)
Opening balance, January 1, 2019	\$ 808,068
Total gains and losses recognized:	
In profit or loss	572,005
Purchased	31,887
Transfers out of Level 3	(721,196)
Reduce the capital for redistribution to share holders	(51,338)
Ending Balance, December 31, 2019	<u><u>\$ 639,426</u></u>
Opening balance, January 1, 2018	\$ 778,988
Total gains and losses recognized:	
In profit or loss	47,286
Purchased	37,989
Disposal	(8,130)
Reduce the capital for redistribution to share holders	(48,065)
Ending Balance, December 31, 2018	<u><u>\$ 808,068</u></u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018, total gains and losses that were included in “other gains and losses” from financial assets at fair value through other comprehensive income” were as follows:

	<u>2019</u>	<u>2018</u>
Total gains and losses recognized:		
In profit or loss, and presented in “other gains and losses”	\$ 568,925	47,286

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

The Group’s financial instruments that use Level 3 inputs to measure fair value include “financial assets measured at fair value through profit or loss – debt investments” .

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income - equity investments without an active market	Market Comparison Method	<ul style="list-style-type: none"> Price to book ratio (December 31, 2019 and December 31, 2018: 1.22% to 2.35% and 1.30% to 3.04%) Non-liquid discount (December 31, 2019 and December 31, 2018: 7% to 10%) Price to earnings ratio (December 31, 2019 and December 31, 2018: 0.75% to 2.63% and 0.41% to 4.57%) Price to book assets ratio (December 31, 2019 and December 31, 2018: 0.53% to 1.32% and 0.46% to 2.74%) 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> the price to book ratio were higher (lower); the non-liquid discount were lower (higher).
Financial assets at fair value through profit or loss - equity investments without an active market	Net Asset Value Method	Net Asset Value	Not applicable

- 6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions by the following percentages to reflect reasonably possible alternative assumptions would have the following effects:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		Increase or decrease	Profit or loss	
	Input		Favorable	Unfavorable
December 31, 2019				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Price to book ratio	10%	9,280	(9,280)
	Non-liquid discount	10%	3,336	(3,336)
December 31, 2018				
Financial assets at fair value through profit or loss				
Equity investments without an active market	Price to book ratio	10%	33,863	(33,863)
	Non-liquid discount	10%	308	(308)

(t) Financial risk management

(i) Overview

The Group have exposed to the following risks from its financial instruments:

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

The following likewise discusses the Group' s objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risk exposures, please refer to respective notes in the report.

(ii) Risk Management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Group' s finance department provides business services to meet other departments' requests and negotiate all necessary transactions on financial markets. In addition, all significant financial activities have to be examined and approved by the Board of Directors. The Group' s financial activities must be in accordance with the overall financial risk management, segregation of duties, and other related policies of the Group. The Group' s audit committee continues to review the amount of the risk exposure in accordance with the Group' s policy and the risk management policies and procedures. The committee reports regularly to the Board of Directors on its activities.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Credit risk

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

1) Accounts receivable and other receivables

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

Trade and other receivables mainly relate to a wide range of customers from different industries and geographic regions. To minimize the credit risk, the Group continues to assess the financial condition and credit risk of its customers. Allowance for doubtful accounts is recognized if necessary.

The account of allowance for doubtful receivables was created by the Group in order to reflect the estimate of the losses had been incurred on accounts receivable and other receivables. The abovementioned account mainly consists of specific losses, relating to significant risk, which were measured individually and other unidentified losses which were measured by grouping similar assets together. The measurement of losses by grouping similar assets together was based on the statistical data of payment history of similar financial assets.

2) Investments

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. As the Group deals with the banks and other external parties with good credit standing financial institutions, the management believes that the Group do not have any compliance issues, and therefore, there is no significant credit risk.

(iv) Liquidity risk

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

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements.

(v) Market risk

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

1) Currency risk

The Group is exposed to currency risk on sales and purchase that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily US Dollars (USD). Natural hedge was adopted to minimize the Group's currency risk. The Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

2) Interest rate risk

Interest risk is the risk that changes in market interest rates will affect the fair value of the Group's financial instruments. For detailed information of interest rate risk exposure, please refer to the liquidity risk management of the note.

3) Other market price risk

The Group is exposed to other market price risk due to investments of stocks from listed entities. These investments are classified as long-term strategic investment other than held-for-trading investments. The Group was not actively involved in trading these investments.

(u) Capital management

The Group meets its objectives to manage its capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders and interest of other related parties and to maintain an optimal capital structure to reduce the cost of capital.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

After being approved by the Board of Directors, the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for issuing shares under the Group's share option program. Buy-and-sell decisions are made on a specific transaction basis by the Board of Directors; the Group does not have a defined share buy-back plan.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group's debt to equity ratios at the end of the reporting period as at December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Total liabilities	\$ 3,643,740	3,220,389
Less: cash and cash equivalents	(1,502,121)	(2,075,773)
Net debt	\$ 2,141,619	1,144,616
Total equity	\$ 7,668,931	6,627,180
Debt to equity ratio	27.93%	17.27%

- (v) Investing and financing activities not affecting current cash flow

	January 1, 2019	Cash flows	Non-cash changes			December 31, 2019
			Foreign exchange movement	Fair value changes	Others	
Short-term borrowings	\$ 243,000	(2,000)	-	-	-	241,000
Lease liabilities	208,326	(27,616)	(389)	-	41,521	221,842
Total liabilities from financial activities	\$ 451,326	(29,616)	(389)	-	41,521	462,842

	January 1, 2018	Cash flows	Non-cash changes			December 31, 2018
			Capital reduction	Foreign exchange movement	Fair value changes	
Short-term borrowings	\$ 240,000	3,000	-	-	-	243,000
Total liabilities from financial activities	\$ 240,000	3,000	-	-	-	243,000

(7) Related-party transactions:

- (a) Names and relationship with related parties

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

Name of related party	Relationship with the Group
Eminent Electronic Technology Corp. Ltd.	An associate
Finger Pro. Incorporation	An associate

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Significant transactions with related parties

(i) Sale of goods to related parties

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

	2019	2018
Associates-Finger Pro.	\$ -	445

The selling price for related parties approximated the market price, and the credit terms ranged from 30 to 60 days by monthly closed. Accounts receivable from related parties were uncollateralized, and no provisions for doubtful debt were required after the assessment by the management.

(ii) Raw materials purchasing services and other operating income

	2019	2018
Associates-Eminent	\$ 10,381	4,734

(iii) Rental income

	2019	2018
Associates-Eminent	\$ 1,906	2,092

(iv) Purchase

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

	2019	2018
Associates-Eminent	\$ 26	455

The terms and pricing of purchase transactions with related parties were not significantly different from those offered by other vendors. The payment term ranged from 15 to 30 days by monthly closed, which were no different from the payment terms given by other vendors.

(v) Receivable from related parties

The receivables from related parties are as follows:

Accounts	Types of related parties	December 31, 2019	December 31, 2018
Accounts receivable	Associates-Eminent	\$ 626	1,134
Other receivables	Associates-Eminent	12,812	28,831
		\$ 13,438	29,965

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(vi) Property transaction

In January 2015, the Company sold its fixed assets to the associate-Eminent, with the selling price and the fixed asset cost amounting to \$4,856 thousand and \$9,154 thousand, respectively. The loss on disposal amounting to \$4,298 thousand, including the unrealized loss of \$1,942 thousand, is to be recognized over its benefit years of 5 years. All the unrealized loss had been realized in 2019.

(c) Key management personnel compensation

	2019	2018
Short-term employee benefits	\$ 85,896	67,947
Post-employment benefits	683	802
	<u>\$ 86,579</u>	<u>68,749</u>

The short-term employee benefits include emoluments to directors and employees. Please refer to Note (6)(r) for estimation methods.

(8) Pledged assets: None.

(9) Commitments and contingencies:

- (a) The Company entered into performance guarantee agreements with financial institutions for the Company's obligation to pay for the goods purchased and the tax payable on bonded raw materials, commodities, fuel, and semi-finished products shipped outside the bond areas for domestic sales, demonstration, repair or testing. As of December 31, 2019 and 2018, the financial institutions had issued performance guarantees amounting to \$4,000 thousand and \$11,000 thousand, respectively.
- (b) As of December 31, 2019 and 2018, the refundable notes payable for short-term loans amounted to \$713,000 thousand and \$585,000 thousand, respectively.
- (c) The Company entered into non-infringement guarantee agreements with some customers (guarantees) to provide a guarantee regarding the selling of touchpad module products.
- (d) Government grant

To develop "Battery-less And Contactless Fingerprint Smart Card Solution", the Company has signed a technology program contract with the Institute for Information Industry in order to receive a grant amounting to \$42,000 thousand. The period of this research plan is from January 1, 2017 to December 31, 2018. The Company is the exclusive owner of all of the know-how, technical skills and intellectual property derived from this development project. Nevertheless, the Company cannot use the intellectual property to manufacture products in a foreign country without a written consent from the Ministry of Economic Affairs within the two-year period starting from the date that this development project is finished. The Company recognizes income based on the progress made on the planned research and development projects. On December 31, 2018, the subsidy's received but not recognized income was \$29,400 thousand. The development plan was completed on December 31, 2019. For the year ended December 31, 2019, the Company recognized income from government grant amounting to \$29,400 thousand within other gains and losses income.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(e) Royalty fee

The Company signed a software authorization contract with a software company. The contract can be terminated at anytime upon the request of either party. Pursuant to the contract, the Company shall pay a royalty fee based on the sales quantity or other agreed conditions when the Company produces and sells products using this software.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other:

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

	For the years ended December 31					
	2019			2018		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Salaries and wages	\$ 266,549	1,510,018	1,776,567	255,373	1,438,744	1,694,117
Labor and health insurance	21,886	88,710	110,596	20,599	83,757	104,356
Pension expenses	7,959	62,716	70,675	8,056	62,439	70,495
Remuneration of directors	-	45,050	45,050	-	30,600	30,600
Others	16,966	42,038	59,004	15,583	41,187	56,770
Depreciation expenses	24,550	52,007	76,557	16,841	29,512	46,353
Amortization expenses	4,079	42,944	47,023	4,454	45,391	49,845

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the nine months ended December 31, 2019:

- (i) Loans to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Microelectronics Corporation	Harvatek Corporation	-	Current financial assets at fair value through profit or loss	491	6,680	-%	6,680	- %	
Elan Microelectronics Corporation	Fubon China Money Market FUND-TWD	-	Current financial assets at fair value through profit or loss	2,901	30,141	-%	30,141	- %	
Elan Microelectronics Corporation	PineBridge Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,209	30,314	-%	30,314	- %	
Elan Microelectronics Corporation	Cathay Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,430	30,344	-%	30,344	- %	
Elan Microelectronics Corporation	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	1,960	21,185	-%	21,185	- %	
Elan Microelectronics Corporation	KGI Victory Money Market Fund	-	Current financial assets at fair value through profit or loss	3,458	40,192	-%	40,192	- %	
Elan Microelectronics Corporation	Union Money Market Fund	-	Current financial assets at fair value through profit or loss	3,801	50,380	-%	50,380	- %	
Elan Microelectronics Corporation	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	2,811	40,090	-%	40,090	- %	
Elan Microelectronics Corporation	Diversified FX Trading Segregated Portfolio	-	Current financial assets at fair value through profit or loss	117	10,911	-%	10,911	- %	
Elan Microelectronics Corporation	Global Strategic FX Arbitrage Note	-	Current financial assets at fair value through profit or loss	208	62,483	-%	62,483	- %	
Elan Microelectronics Corporation	Multi-Manager FX Trading Note (M2)	-	Current financial assets at fair value through profit or loss	204	61,559	-%	61,559	- %	
Elan Microelectronics Corporation	Global Strategic FX Arbitrage Note (USD)(SERIES II)	-	Current financial assets at fair value through profit or loss	100	30,040	-%	30,040	- %	
Elan Microelectronics Corporation	Fitipower Integrated Technology Inc.	-	Non-current financial assets at fair value through other comprehensive income	1,956	73,545	1.18%	73,545	2.50%	

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Microelectronics Corporation	ThroughTek Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	1,100	11,924	4.23%	11,924	4.23%	
Elan Microelectronics Corporation	Chino-Excel Technology Corporation	-	Non-current financial assets at fair value through profit or loss	823	-	1.48%	-	1.48%	
Elan Microelectronics Corporation	Panther technology Co., Ltd.	-	Non-current financial assets at fair value through profit or loss	340	4,746	0.94%	4,746	0.94%	
Elan Microelectronics Corporation	XINCE Co., Ltd	-	Non-current financial assets at fair value through profit or loss	2,866	-	9.24%	-	9.24%	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	1,391	1,916	17.39%	1,916	17.39%	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	490	1,992	7.00%	1,992	7.00%	
Elan Microelectronics Corporation	TOP TAIWAN V VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	1,138	1,556	8.13%	1,556	8.13%	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	717	6,451	2.17%	6,451	2.17%	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	2,878	30,177	6.12%	30,177	6.12%	
Elan Microelectronics Corporation	TOP TAIWAN II VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	5,417	51,099	4.17%	51,099	4.17%	
Elan Microelectronics Corporation	Midatouch Research Corporation	-	Non-current financial assets at fair value through profit or loss	2,500	8,525	10.24%	8,525	11.61%	
Elan Microelectronics Corporation	TOP TAIWAN IX VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	5,000	58,058	6.25%	58,058	6.25%	
Elan Microelectronics Corporation	InnoBridge Venture Capital	-	Non-current financial assets at fair value through profit or loss	800	3,645	11.35%	3,645	11.35%	
Elan Microelectronics Corporation	Startek Engineering Inc.	-	Non-current financial assets at fair value through profit or loss	189	-	0.53%	-	0.53%	
Elan Microelectronics Corporation	North Star Venture Capital	-	Non-current financial assets at fair value through profit or loss	3,000	39,783	10.00%	39,783	10.00%	
Elan Microelectronics Corporation	TOP TAIWAN XI VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	5,000	42,983	6.25%	42,983	6.25%	
Elan Microelectronics Corporation	Genius Vision Digital Inc.	-	Non-current financial assets at fair value through profit or loss	495	-	6.56%	-	6.56%	

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Microelectronics Corporation	Lyra Semiconductor Incorporated	-	Non-current financial assets at fair value through profit or loss	2,400	21,720	5.87%	21,720	11.78%	
Elan Microelectronics Corporation	TOP TAIWAN XII VENTURE CAPITAL CO., LTD.	-	Non-current financial assets at fair value through profit or loss	25,000	269,550	18.52%	269,550	18.52%	
Elan Microelectronics Corporation	Chimei Motor Electronics Co., Ltd.	-	Non-current financial assets at fair value through profit or loss	950	7,885	5.00%	7,885	5.94%	
Elan Microelectronics Corporation	Waltop International Corporation	-	Non-current financial assets at fair value through profit or loss	500	4,540	3.41%	4,540	6.81%	
Elan Microelectronics Corporation	Vertex Growth (SG) LP	-	Non-current financial assets at fair value through profit or loss	-	30,152	-%	30,152	- %	
Elan Investment Corp.	FSITC Money Market Fund	-	Current financial assets at fair value through profit or loss	186	33,349	-%	33,349	- %	
Elan Investment Corp.	FSITC US Top 100 Bond Fund Acc TWD	-	Current financial assets at fair value through profit or loss	1,500	15,075	-%	15,075	- %	
Elan Investment Corp.	FSITC Global Wealthy Nations Bond Fund Acc TWD	-	Current financial assets at fair value through profit or loss	2,629	26,296	-%	26,296	- %	
Elan Investment Corp.	Nomura Global Short Duration Bond Fund-TWD	-	Current financial assets at fair value through profit or loss	5,000	53,842	-%	53,842	- %	
Elan Investment Corp.	Nomura Taiwan Money Market Fund	-	Current financial assets at fair value through profit or loss	2,221	36,384	-%	36,384	- %	
Elan Investment Corp.	Taishin Global Multi-asset Fund of Funds-TWD-A	-	Current financial assets at fair value through profit or loss	1,000	10,940	-%	10,940	- %	
Elan Investment Corp.	Taishin Global Disruptive Innovation Fund-TWD	-	Current financial assets at fair value through profit or loss	1,500	16,905	-%	16,905	- %	
Elan Investment Corp.	Taishin 1699 Money Market Fund	-	Current financial assets at fair value through profit or loss	5,556	75,479	-%	75,479	- %	
Elan Investment Corp.	Taishin North American Income Trust Fund-A	-	Current financial assets at fair value through profit or loss	1,943	46,178	-%	46,178	- %	
Elan Investment Corp.	Diversified FX Trading Segregated Portfolio	-	Current financial assets at fair value through profit or loss	534	49,675	-%	49,675	- %	
Elan Investment Corp.	Elan Microelectronics Corporation	Subsidiary	Non-current financial assets at fair value through other comprehensive income	12,438	1,134,364	4.09%	1,134,364	4.09%	

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Investment Corp.	Fitipower Integrated Technology Inc.	-	Non-current financial assets at fair value through other comprehensive income	941	35,364	0.58%	35,364	0.58%	
Elan Investment Corp.	Rafael Microelectronics, Inc.	-	Non-current financial assets at fair value through other comprehensive income	400	71,000	1.59%	71,000	1.62%	
Elan Investment Corp.	Panther Technology Co., Ltd.	-	Non-current financial assets at fair value through profit or loss	1,396	19,474	3.88%	19,474	3.88%	
Elan Investment Corp.	RISE Technology Com	-	Non-current financial assets at fair value through profit or loss	769	-	3.23%	-	3.23%	
Elan Investment Corp.	FineMat Applied Materials Co., Ltd	-	Non-current financial assets at fair value through profit or loss	8,900	721,196	13.41%	721,196	14.74%	
Elan Investment Corp.	Linkinwave-Preferred shares	-	Non-current financial assets at fair value through profit or loss	296	-	-%	-	- %	
Elan Investment Corp.	Pica 8-Preferred shares	-	Non-current financial assets at fair value through profit or loss	342	4,835	2.25%	4,835	4.48%	
Elan Investment Corp.	Arplanet Digital Technology Co., LTD.-Preferred shares	-	Non-current financial assets at fair value through profit or loss	114	1,351	4.69%	1,351	4.69%	
Elan Investment Corp.	Arplanet Digital Technology Co., LTD.-Common Stock	-	Non-current financial assets at fair value through profit or loss	75	886	3.08%	886	3.08%	
Elan Investment Corp.	INNOJOY TECHNOLOGY INC.-Preferred Shares	-	Non-current financial assets at fair value through profit or loss	143	-	10.00%	-	10.00%	
Elan Investment Corp.	ZQAM Communications Corporation-Preferred shares	-	Non-current financial assets at fair value through profit or loss	1,000	5,590	4.63%	5,590	5.00%	
Elan Investment Corp.	e-Formula Technologies, Inc.	-	Non-current financial assets at fair value through profit or loss	550	12,832	3.03%	12,832	3.03%	
Elan Investment Corp.	ALGOLREALITY CO., LTD.-Preferred Shares	-	Non-current financial assets at fair value through profit or loss	100	-	13.04%	-	13.04%	
Elan Investment Corp.	Vita Genomics, Inc.	-	Non-current financial assets at fair value through profit or loss	677	6,975	1.13%	6,975	1.13%	
Elan Investment Corp.	MedicusTek International Inc.	-	Non-current financial assets at fair value through profit or loss	1,010	-	1.47%	-	1.55%	
Elan Investment Corp.	Taiwan i Connect Co., Ltd.-Preferred Shares	-	Non-current financial assets at fair value through profit or loss	10,000	2,705	14.29%	2,705	14.29%	

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
Elan Investment Corp.	Genius Vision Digital Inc.	-	Non-current financial assets at fair value through profit or loss	370	-	4.91%	-	4.91%	

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Elan Microelectronics Corporation	Elan H.K.	Subsidiary	Sale	561,936	5.92%	Open Account 45 Days	-		44,949	3.67%	

Note: The amounts of the transaction and the ending balance had been offset in the consolidated financial statements.

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None.
- (ix) Trading in derivative instruments: None.
- (x) Business relationships and significant intercompany transactions:

Significant transactions and business relationship between the parent company and its subsidiaries exceeding 1% of total assets or operating revenue are as follows:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	Elan Microelectronics Corporation	Elan H.K.	1	Operating revenue	561,936	Open Account 45 Days	5.92%
0	Elan Microelectronics Corporation	Elan H.K.	1	Accounts receivables	44,949	Open Account 45 Days	0.40%
1	Elan H.K.	Elan Microelectronics Corporation	2	Commission revenue	240,494	Monthly settlement	2.53%

(b) Information on investees:

The followings are the information on investees for the years ended December 31, 2019 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value				
Elan Microelectronics Corporation	Elan H.K. Microelectronics Corp. Ltd.	Hong kong, China	Sale and after-sales service	123,272	123,272	29,328	100.00%	290,768	100.00%	70,908	70,908	Note
Elan Microelectronics Corporation	Elan Investment Corp.	Taipei, Taiwan	Investment holding	500,000	500,000	50,000	100.00%	1,320,922	100.00%	591,850	591,850	Note
Elan Microelectronics Corporation	Elan Information Technology Group	California, USA	Sale, after-sales service and provide new informational skills	22,822	22,822	65	100.00%	16,202	100.00%	1,681	1,681	Note
Elan Microelectronics Corporation	JPUP Electron Co., Ltd	New Taipei City, Taiwan	Wholesale and installation of electronic devices, data storage and equipment process	7,840	7,840	784	49.00%	1,291	49.00%	(5,147)	(2,522)	Note

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value				
Elan Microelectronics Corporation	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	184,939	1,041,136	9,730	63.60%	(139,089)	63.60%	(61,527)	(39,108)	Note
Elan Microelectronics Corporation	Avisonic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	134,523	266,333	12,542	80.08%	10,065	80.08%	(47,686)	(35,598)	Note
Elan Microelectronics Corporation	Tong fu Investment Corp.	Hsin-Chu, Taiwan	Investment holding	30,000	30,000	3,000	46.73%	-	46.73%	-	-	
Elan Microelectronics Corporation	Lighting Device Technologies Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on LED chips	19,520	19,520	1,805	45.07%	-	45.07%	-	-	
Elan Microelectronics Corporation	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	376,024	376,024	33,871	96.77%	24,644	96.77%	(26,818)	(25,954)	Note
Elan Microelectronics Corporation	EMINENT ELECTRONIC TECHNOLOGY CORP. LTD.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	52,100	38,381	4,113	28.94%	18,008	29.89%	8,322	2,479	
Elan Microelectronics Corporation	TOP TAIWAN X VENTURE CAPITAL CO., LTD.	Taipei, Taiwan	Venture capital	240,000	240,000	24,000	30.00%	280,672	30.00%	167,394	50,218	
Elan Microelectronics Corporation	Fong Yue Corporation	Taipei, Taiwan	Investment holding	-	30,000	-	- %	-	- %	(4,392)	(4,392)	Note
Elan Microelectronics Corporation	Uniband Electronic Corp.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	50,000	80,000	5,000	24.69%	13,628	23.12%	(25,860)	(5,996)	
Elan Microelectronics Corporation	Finger Pro Incorporation	Hsin-Chu, Taiwan	Manufactures and sells electronic devices	6,000	6,000	600	23.08%	1,267	23.08%	(5,003)	(1,155)	
Elan Investment Corp.	Avisonic Technology Corp.	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on digital image-process chips	6,463	21,543	646	4.13%	537	6.06%	(47,686)	(2,775)	Note
Elan Investment Corp.	RONG CHENG Technology	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	77,706	77,706	8,000	38.46%	-	38.46%	-	-	
Elan Investment Corp.	PIXORD Corporation	Hsin-Chu, Taiwan	Research, design, develop, manufacture and sale on Webcam and server	2,659	2,659	174	0.50%	126	0.50%	(26,818)	(133)	Note
Elan Investment Corp.	Metanoia Communications Inc.	Hsin-Chu, Taiwan	Research, design, development, manufacture and sales of Discrete Multi-Tone (DMT) chip and client chip, PON to OLT and ONU chip and GHN chip, a new generation home network	8,068	44,825	653	4.26%	6,964	4.26%	(61,527)	(2,625)	Note
Elan Investment Corp.	EMINENT ELECTRONIC TECHNOLOGY CORP. LTD.	Hsin-Chu, Taiwan	Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments	38,481	-	3,000	15.04%	17,262	15.04%	8,414	136	
Elan H.K.	Power Asia Investment Corporation	Republic of Mauritius	Investment business	89,572	89,572	2,861	100.00%	25,015	100.00%	1,715	1,715	Note

Note: Investments in subsidiaries whereby the Company has control over has been eliminated at the Group level from long term investment.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Highest Percentage of ownership	Investment income (losses) recognized	Carrying value as of December 31, 2019	Accumulated inward remittance of earnings as of December 31, 2019
					Outflow	Inflow							
Elan Shanghai	Provide system design, information on applications expansion	52,095	(2)	52,095	-	-	52,095	2,312	100.00%	100%	2,312	15,711	-
Elan Shenzhen	Provide system design, information on applications expansion	34,670	(2)	34,670	-	-	34,670	(606)	100.00%	100%	(606)	8,835	-

Note: The investment income (losses) from Elan Shanghai and Elan Shenzhen are calculated on the reviewed financial statements in the same period.

(ii) Upper limit on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
86,765	98,333	4,601,359

Note: The investment limit was calculated on the official document 09704604680 announced by the MOEAIC on August 29, 2008.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions" .

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Segment information:

(a) General information

The Group has seven reportable segments: Consumer Touch Control Business Unit, Laptop Input Device Business Unit, Network Communication Business Unit, Image Processing Design Business Unit, Product Safety Surveillance Business Unit, Investment Business Unit, Sales Department and other departments. The main operations of Consumer Touch Control Business Unit are microprocessor, digital signal processor, application on specific integrated circuit and model. The Group also provides research and development service on the related products. Laptop Input Device Business Unit engages in research, sales, produce and manufacture of laptop input devices. The main operations of Network Communication Business Unit include research, develop and design network communication chips. Image Processing Design Business Unit engages in image processing and design of multi-media compressed chips. Product Safety Surveillance Business Unit involves the manufacturing and the development of safety surveillance systems. Investment Business Unit engages in the management of investee. Sales Department provides sales product services. Other departments engage in design and manufacture of electronic devices.

The reportable segments are the Group' s strategic divisions. They offer different products and services, and are managed separately because they require different technology and marketing strategies. Most of the strategic divisions were acquired separately. The management of the acquired divisions remains employed by the Group.

(b) Reportable information of segments profit or loss (includes reportable segment revenue and expenses), segment assets, segment liabilities, and their measurement and reconciliations:

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, but not including any extraordinary activity and foreign exchange gain or losses, because the taxation, extraordinary activity and foreign exchange gain or losses are managed on a group basis, and hence, they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that of the report used by the chief operating decision maker. The operating segment accounting policies are similar to the ones described in note (4) "Significant accounting policies" .

The Group' s operating segment information and reconciliation are as follows:

For the year then ended December 31, 2019										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Revenue										
Revenue from external customers	\$ 2,517,659	6,227,996	88,084	51,793	37,788	-	563,892	-	765	9,487,977
Intersegment revenues	562,860	-	1,156	28	2,056	-	240,494	26,230	(832,824)	-
Interest revenue	36,558	4,026	56	40	126	151	453	-	-	41,410
Total revenue	<u>\$ 3,117,077</u>	<u>6,232,022</u>	<u>89,296</u>	<u>51,861</u>	<u>39,970</u>	<u>151</u>	<u>804,839</u>	<u>26,230</u>	<u>(832,059)</u>	<u>9,529,387</u>

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year then ended December 31, 2019										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Interest expenses	\$ 3,041	30	4,194	1,353	137	23	689	-	-	9,467
Depreciation and amortization	70,784	26,784	4,371	5,067	1,034	563	14,977	-	-	123,580
Share of profit of equity-accounted investees (associates, and jointly controlled entities)	(602,411)	-	-	-	-	(2,881)	-	-	650,974	45,682
Other material non-cash items										
Reportable segment profit or loss	<u>\$ 2,137,454</u>	<u>2,121,165</u>	<u>(58,320)</u>	<u>(46,888)</u>	<u>(26,728)</u>	<u>(920)</u>	<u>73,221</u>	<u>(3,442)</u>	<u>(2,114,116)</u>	<u>2,081,426</u>
Assets										
Equity-accounted investees	\$ 1,838,379	-	-	-	-	24,889	-	-	(1,532,431)	330,837
Capital expenditure	87,356	30,549	62,808	4,137	1,330	1,844	147	-	-	188,171
Reportable segment assets	<u>\$ 7,963,576</u>	<u>2,939,665</u>	<u>204,987</u>	<u>66,870</u>	<u>54,994</u>	<u>2,456,653</u>	<u>418,058</u>	<u>19,153</u>	<u>(2,877,064)</u>	<u>11,246,892</u>
For the year then ended December 31, 2018										
	Consumer Touch Control Business Unit	Laptop Input Device Business Unit	Network Communication Business Unit	Image Processing Design Business Unit	Security Monitoring Business Unit	Investment Business Unit	Sales and Retailing Business Unit	Other Business Unit	Reconciliation and elimination	Total
Revenue										
Revenue from external customers	\$ 2,420,130	5,516,229	108,562	64,561	40,620	-	503,275	24	(2,069)	8,651,332
Intersegment revenues	496,637	-	565	22	1,454	-	237,273	30,257	(766,208)	-
Interest revenue	36,503	6,669	23	116	68	169	309	-	-	43,857
Total revenue	<u>\$ 2,953,270</u>	<u>5,522,898</u>	<u>109,150</u>	<u>64,699</u>	<u>42,142</u>	<u>169</u>	<u>740,857</u>	<u>30,281</u>	<u>(768,277)</u>	<u>8,695,189</u>
Interest expenses	\$ -	8	2,746	1,710	187	-	-	-	-	4,651
Depreciation and amortization	68,556	18,645	1,049	6,026	1,574	-	345	3	-	96,198
Share of profit of equity-accounted investees (associates, and jointly controlled entities)	(57,080)	-	-	-	-	4,278	-	-	92,188	39,386
Other material non-cash items										
Impairment of assets	25,808	-	-	-	-	-	-	-	-	25,808
Reportable segment profit or loss	<u>\$ 1,769,577</u>	<u>1,781,908</u>	<u>(58,129)</u>	<u>(31,871)</u>	<u>(30,577)</u>	<u>(2,336)</u>	<u>74,335</u>	<u>2,790</u>	<u>(1,775,409)</u>	<u>1,730,288</u>
Assets										
Equity-accounted investees	\$ 1,129,348	-	-	-	-	9,909	-	-	(892,695)	246,562
Capital expenditure	37,121	216,970	530	3,049	592	-	135	-	-	258,397
Reportable segment assets	<u>\$ 6,757,250</u>	<u>2,760,697</u>	<u>49,640</u>	<u>87,467</u>	<u>83,496</u>	<u>1,604,776</u>	<u>309,493</u>	<u>23,080</u>	<u>(1,872,752)</u>	<u>9,803,147</u>

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) Information about products and services

Revenue from the external customers of the Group was as follows:

Products and services	2019	2018
Consumer Touch Control Integrated Circuit	\$ 3,082,316	2,921,360
Laptop Input Device	6,227,996	5,516,229
Network Communication Integrated Circuit	88,084	108,562
Image Processing Integrated Circuit	51,793	64,561
Security Monitoring Model	37,788	40,620
Total	\$ 9,487,977	8,651,332

(ii) Geographical information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

Geographical information	2019	2018
Revenue from external customers:		
Taiwan	\$ 987,990	1,107,829
China	2,020,647	1,847,316
Hong Kong	6,424,206	5,613,718
Other countries (less than 5%)	55,134	82,469
	\$ 9,487,977	8,651,332

Geographical information	December 31, 2019	December 31, 2018
Non-current assets:		
Taiwan	\$ 1,260,596	1,003,837
China	26,903	3,363
Hong Kong	6,279	178
	\$ 1,293,778	1,007,378

Non-current assets include property, plant and equipment, right-of-use assets, intangible assets, and other assets, not including financial instruments, deferred tax assets, assets of post-employment benefits and rights arising from an insurance contract (non-current).

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Information about major customers

	2019	2018
Customer A (Laptop Input Device Model)	\$ 2,831,807	2,382,325
Customer A (Consumer Touch Control Integrated Circuit Model)	764,376	639,137
Customer B (Laptop Input Device Model)	1,713,092	1,526,346
Customer B (Consumer Touch Control Integrated Circuit Model)	347,609	417,924
	<u>\$ 5,656,884</u>	<u>4,965,732</u>

6. Financial Difficulties of the Company and its Affiliates During the Last Fiscal Year and Until the Publishing date of the Annual Report : N/A

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

1. Financial Status

Comparative Statement of Financial Position

Unit: NT\$'000

Item	Year	2019	2018	Differences	
				Amount	%
Current assets		8,006,975	7,447,785	559,190	7.51
Property, plants and equipments		760,537	767,874	(7,337)	(0.96)
Intangible assets		304,219	225,319	78,900	35.02
Other assets		271,869	55,439	216,430	390.39
Total assets		11,246,892	9,803,147	1,443,745	14.73
Current liabilities		3,057,941	2,828,645	229,296	8.11
Non-current liabilities		585,799	391,744	194,055	49.54
Total liabilities		3,643,740	3,220,389	423,351	13.15
Equity attributable to owner(s) of the parent company		7,668,931	6,627,180	1,041,751	15.72
Capital stock		3,038,804	3,038,804	-	-
Capital surplus		375,945	444,033	(68,088)	(15.33)
Retained earnings		4,153,247	3,005,648	1,147,599	38.18
Other equity		129,910	172,023	(42,113)	(24.48)
Treasury shares		28,975	33,328	(4,363)	(13.06)
Non-controlling interest		(65,779)	(44,422)	(21,357)	48.08
Total shareholders' equity		7,603,152	6,582,758	1,020,394	15.15

Explanation:

- (1) Where the percentage of changes in the Company's consolidated assets, liabilities, and shareholders' equity in the past two years was more than 20% and the amount of changes reached NT\$10 million, the impact and future countermeasures:
1. Intangible assets: The amount is higher this period than that of last year mainly due to the increase in R & D demands, acquisition of patent authorization and software.
 2. Other assets: The amount is higher this period than that of last year mainly due to the adoption of IFRS 16 in this year and the right-of-use assets arising from capitalized leases.
 3. Non-current liabilities: The amount is higher this period than that of last year mainly due to the adoption of IFRS 16 in this year and the non-current lease liabilities arising from capitalized leases.
 4. Retained earnings: This period was higher than that of last year, mainly due to the increase in profit of the period.
 5. Non-controlling interest: This period was less than that of last year mainly due to some of the consolidated subsidiaries were not profitable in this period.
- (2) Future countermeasures: N/A.

2. Operating Results

(1) Operating results comparison analysis table:

Unit: NT\$'000

Items \ Year	2019	2018	Increase (decrease) amount	Percentage of changes %
Operating income	9,487,977	8,651,332	836,645	9.67
Gross income	4,416,688	3,944,177	472,511	11.98
Income (loss)	2,081,426	1,730,288	351,138	20.29
Non-operating income and expenses	728,234	139,780	588,454	420.99
Net profit before tax	2,809,660	1,870,068	939,592	50.24
Net going concern profit of the period	2,464,742	1,531,702	933,040	60.92
Net profit of the period	2,464,742	1,531,702	933,040	60.92
Other comprehensive income (loss) of the period	29,792	29,148	644	2.11
Total comprehensive income (loss) of the period	2,494,534	1,560,850	933,684	59.82
Net profit attributable to owner(s) of the parent company	2,496,744	1,559,580	937,164	60.09
Net profit attributable to non-controlling interest	(32,002)	(27,878)	(4,124)	14.79
Total comprehensive income (loss) attributable to owner(s) of the parent company	2,526,686	1,588,903	937,783	59.02
Total comprehensive income (loss) attributable to non-controlling interest	(32,152)	(28,053)	(4,099)	14.61

(2) Major reasons for material changes in consolidated operating income, net operating income, and net profit before tax in the past two years; the possible impact on the Company's future finance and business from the expected sales volume (include its basis) and the countermeasures therefor: (please provide analysis and explanation when the percentage of change is more than 20%, and the amount is more than 10 million)

1. Increase in net operating profit:
Mainly due to the revenue growth and increase in gross margin of the period, resulting in an increase in net operating profit over the previous period.
2. Increase in non-operating income and expenses:
Mainly because appraisal value of financial assets and exchange benefits are higher in the current period compare to the previous period.
2. Increase in net profit before tax of the period:
Mainly due to revenue growth and increase in gross margin of the period, which resulted in an increase in net operating profit over the previous period, plus the input from non-operating income, which resulted in an increase in net profit before tax of the period over the previous period.

(3) The possible impact on the Company's future finance and business from the expected sales volume (include its basis) and the countermeasures therefor:

Although global smartphone shipment growth has remained flat in the past few years, total shipments in 2019 have declined compared to the average annual shipments in 2015-2018; global smartphone shipments in 2019 were 1,371,000,000 units (an annual decrease of 2.3%). Looking towards the future, IDC believes that 5G mobile phones are expected to become an important weapon in 2020, reversing the previous three consecutive years of decline. As the notebook computer shipment report shows, it is affected by the increase in the demand for commercial notebooks in 2019 with an annual increase of 1.6%. It is estimated that the shipment of notebooks in 2019 will be 165,000,000 units.

Shipment of notebooks is expected to reach 161,000,000 units in 2020, which is a slight decrease from that of last year. During the entire year of 2019, a total of 144,100,000 tablets were sold worldwide (an annual decrease of 1.5%), of which, Apple iPad is still the biggest winner with a total shipment of 49,900,000 units (an annual increase of 15.2%) and a market share of 34.6%; Samsung, Huawei, and Lenovo are in second, third and fifth places respectively, with shipments decreased by 7.2%, 3.5% and 4.2% respectively; Amazon ranks fourth, with shipments increased by 9.9%.

Personal privacy and online information security is also an important development trend. Mobile payment has becoming a major usage habit allowing users to complete transactions easily through mobile devices, such as smart phones, notebooks, tablets, smart cards, PC peripherals, etc. However, the actual penetration rate of mobile payment usage is still low. The security and reliability in making payment and reasonable fee of using mobile payment, etc., are still the most concerned issues of the consumers. Although biometric IC are now used as a key component for smart phones, the real use of smart phones in the payment is still limited to specific markets and not fully popularized.

Although biometric ICs have shifted from capacitive to optical or ultrasonic waves capable, the new ICs are adapting changes in materials such as changing from TFT LCD to OLED panel, etc., and all the required characteristics are different, but after various APPs are provided on each platform, the means to protect the privacy of consumers and the security in Internet usage to avoid hacking is very important for consumers; therefore, encrypted ICs are thus born. This product facilitates the provision of differentiated competing energy and improvement in operations.

In the meanwhile, smart card products with biometric function (including credit card, ATM card, Easy Card, ID card, NHI card, etc.) are the application products with the most long-term potential. Many cards are not limited to one personal use, therefore, the market opportunity is optimistic. Other the other hand, smart cards adopting device with biometric function can effectively prevent the spread of fake cards and reduce credit cards incidents and disputes between banks and users arising from lost of credit cards and unauthorized use of credit cards; which, in addition to ensuring the security of the personal property, it also maintains goodwill of the vendors. The biggest difference is that the consumers have long been issued with the cards free of cost without purchasing. The means to reduce the cost of the smart card product with biometric function is also a key task. At present, biometric vendors are actively striving for market opportunities in this field.

In addition, the Company has long been engaged in the development and application of touch technology, and has patents in the United States, Japan, China and Taiwan. In general, the application of the successfully mass produced touch control ICs that the Company researched and developed covers touch panel of various large, medium and small sizes, and coupled with complete terminal pre-sales and after-sales services for smart phones, tablets and stylus notebooks.

The Company will continue to provide customers with a total solution that is more competitive in the international market.

The means to unleash the competitive advantage of the Company is a top priority. The Company works closely with the world-renowned Pen Protocol specification makers to provide terminal customers with the specification makers' latest and best solutions for smart phones, notebooks, tablets and other products. Due to the increasing size of smart phone screens and the availability of flexible and foldable phones, the potential for future development of pen-based touch control IC is anticipated.

While facing the global competition from peers of the touch control IC industry, the Company is still maintaining its leading position; of which the touch screen notebook ICs account for more than 60% of the world market share, while the touch pad modules also account for more than 50% of the world market share. At present, the competitors include many domestic and foreign IC design companies, such as American manufacturers Synaptics and Microchip, Japanese manufacturer Alps and China manufacturer Goodix. On the other hand, due to the increasingly fierce competition, IC prices also dropped; therefore, effectively improving the performance of ICs, reducing IC production costs, establishing differentiated product characteristics, competitive technology thresholds and sales channels are the goals of the Company's continued efforts in 2020.

The most important applications in the touch control industry are smart phones, notebooks and tablets. As competitors have accelerated their investment in recent years, the number of manufacturers have increased and their production capacities have expanded. As a result, competition among the entire supply chain has intensified, and manufacturers that cannot maintain strong competitiveness cannot profit or are forced to withdraw from the competition.

The Company is a professional IC design company with a full range of integrated solutions. It has a strong R & D team and invests more than 15% in R & D each year. It is a IC design company that focuses on research and development of new products. The quality of products developed by the Company is recognized by the customers; the proportion of revenue from global tier-one manufacturer customers accounted for more than half of the total revenue. The touch control notebook ICs accounted for nearly half of the world's market share. At present, the Company has three products that ranks first in the world, namely stylus notebook screen IC, touch pad module and pointing stick.

3. Cash Flow

- (1) Analysis on changes in the consolidated cash flow for the last fiscal year (2019):

Unit: NT\$'000

beginning cash balance (1)	net cash flows from operating activities of the year (2)	cash outflows of the year (3)	cash balance (short) (1) + (2) - (3)	remedy measures for cash shortage	
				investment plan	investment plan
2,075,773	1,679,126	(2,252,778)	1,502,121	—	—

1. Analysis on changes in the consolidated cash flow of the year:	
(1)	Operating activities: net cash inflow from operating activities has decreased by NT\$59,060,000 from the previous year, which was mainly due to the financial asset appraisal with no affect on cash inflows in net profit before tax of the year has higher valuation, and the increase in inventories due to increase in orders.
(2)	Investment activities: Net cash outflows from investment activities has increased by NT\$1,444,623,000 from the previous year, which was mainly due to the decrease in the number of fixed deposit with maturity longer than 3 months and the acquisition of financial assets carried at cost.
(3)	Financing activities: Net cash outflows from financing activities decreased by NT\$838,271,000 from the previous year, which was mainly due to cash capital reduction of the period and the increase in cash dividends payment in the year.
2. Expected remedy measures for cash shortage and liquidity analysis: N/A.	

(2) Cash liquidity analysis for the coming year

Unit: NT\$'000

Beginning cash balance (1)	Expected net cash flows from operating activities of the year (2)	Expected cash outflows of the year (3)	Expected cash balance (short) (1) + (2) - (3)	Expected remedy measures for cash shortage	
				Investment plan	Investment plan
1,502,121	2,144,820	(1,697,491)	1,949,450	—	—
1. Analysis on changes in the cash flow of the year:					
(1) Operating activities: The Company expects its operating income to grow, in addition to the original notebook touch control solution, from the development of products combining single-chip solution with capacitive stylus pen function and LCD driver IC (TDDI) solution. It is expected to see net cash inflow from operating activities.					
(2) Investment activities: It is expected to see net cash inflows from investment activities, which mainly covers the procurement of software, fixed assets, strategic equity investment and other expenditures, and the fixed deposits of longer than three months are expected to be reduced.					
(3) Financing activities: It is expected to see cash outflows from financing activities, which is mainly for the payment of shareholders' cash dividends.					
2. Expected remedy measures for cash shortage and liquidity analysis: N/A.					

4. Impact of Major Capital Expenditures on the Financial Operations during the Last Fiscal Year:

- (1) The use of major capital expenditures and sources of funding:
The Company has no capital expenditure in recent years that has major impact on its finance.
- (2) Expected benefits: N/A.

5. The last fiscal year joint venture policies, main reasons for the profit or loss and the improvement plan thereof and the investment plan for the coming year:

items explain	investment policies	investment profit or loss recognized for the period	reason for the profit (loss)	improvement plan	other future investment plan
Elan Investment Corporation	general investment business	591,850	Mainly due to the appraisal values of financial assets are higher in the current period	—	—
Metanoia Communications Co., Ltd.	manufacture cable and wireless communication machinery and equipment, electronic components, wholesale and retail telecommunication equipment	(39,108)	Since the continuous investment in the development of new telecommunications products and the telecommunications company certification takes long time to acquire, plus the delay in the development of new products has affected revenue and caused losses, there was still losses in 2019.	Suntel Networks' products have been recognized by foreign telecommunications companies such as Swisscom and British Telecom, and are preparing for related certifications and system development. continue working with NXP to develop high-end routers and introduce IoT and smart home network solutions. The above is expected to contribute to revenue in 2020.	—
Avisonic Technology Corporation	research, design, manufacture and sale of multimedia video compression and impact processing ICs	(35,598)	Due to the impact of delay in the development of customer product, adjustment of mass production schedule and changes in important customers' product lines, the revenue has declined in 2019 compared with that of in 2018; since it is optimistic about the growth of smart image recognition application market, it continues to invest in the development of software and hardware technologies for image-related products and result in losses in 2019.	After years of efforts in the in-vehicle market, as the customer's inventory level dropped and a number of new models have gradually entered the stage of mass production, it is expected to see product revenue momentum increase in 2020.	—
PiXORD Corporation	export manufacturing, data storage and processing equipment, wireless communication machinery and equipment manufacturing	(25,954)	Due to the change in order-taking strategy, the gross profit has increased in 2019 even though the revenue has decreased from that of in 2018, and the continued investment in R & D and bid promotion has caused continued losses in 2019.	Utilizing the technological advantages of artificial intelligence and fisheye lens to promote the entire solution of "Smart Traffic Flow" and traffic technology related law enforcement and propose a sales profolio with diversified AI application solutions to increase revenue.	—
Wending Venture Capital Co., Ltd.	Venture capital	50,218	Mainly due to the appraisal values of financial assets are higher in the current period	—	—

Note: Analysis on investment losses and profits of more than NT\$10 million only.

6. Risk Analysis and Assessment

- (1) The impact of interest rate, exchange rate changes and inflation on the profit or loss of the Company in the last fiscal year and the future countermeasures therefor:

Unit: NT\$'000

Item	Year	2019
Net operating income		9,487,977
Net profit before tax		2,809,660
Net exchange (loss) profit		(26,734)
Net exchange (loss) profit to net income ratio		-0.28%
Net exchange (loss) profit to net profit before tax ratio		-0.95%
Interest revenues		41,410
Interest revenues accounted for net income ratio		0.44%
Interest revenues accounted for net profit before tax ratio		1.47%
Interest expenses		9,467
Interest expenses accounted for net income ratio		0.10%
Interest expenses accounted for net profit before tax ratio		0.33%

1. Interest Rate: The net interest income (expenses) accounted for 0.34% of net income in 2019. The Company has sufficient funds and does not have any financial borrowing; and given the economic recovery is still over-shadowed, safety is a major consideration in the use of funds. Therefore, the funds were allocated to the stable targets in order to obtain steady amount of interest income.
 2. Exchange rate: In order to avoid exchange rate fluctuations, the Company offsets regular sales amount with purchase amount to achieve the natural hedge effect on exchange rate changes. In 2019, the overall exchange loss was NT\$26,734,000. The Company's financial personnel pay close attention and duly response to exchange rate fluctuations at all time to reduce the impact of exchange rate changes on the Company's profit and loss.
 3. Inflation: The Company has long-term cooperation with raw materials suppliers, so the source and price of the raw materials are quite stable; therefore, inflation has no significant impact on the Company's profit and loss. The Company will pay close attention to the changes in the relevant economic environment and the market to avoid adverse effect on the Company caused by inflation.
- (2) Policies on high risk, high leverage investment, capital lending to others, endorsement and trading of derivative commodities, main reasons for profit or loss therefrom and future countermeasures therefor:

The Company did not engage in high risk, high leverage investment, nor capital lending to others, endorsement or trading of derivative commodities. The company has set operating procedures of lending funds to others, endorsing, acquiring or disposing of assets as basis for related operations.

- (3) Future R & D plans and expected R & D expenses:

1. Future R & D plans:

The Company works closely with the world-renowned Pen Protocol specification makers to provide terminal customers with the specification makers' latest and best solutions for smart phones, notebooks, tablets and

other products. Due to the increasing size of smart phone screens and the availability of flexible and foldable phones, the potential for future development of pen-based touch control IC is anticipated.

While facing the global competition from peers of the touch control IC industry, the Company is still maintaining its leading position; of which the touch screen notebook ICs account for more than 60% of the world market share, while the touch pad modules also account for more than 50% of the world market share. At present, the competitors include many domestic and foreign IC design companies, such as American manufacturers Synaptics and Microchip, Japanese manufacturer Alps and China manufacturer Goodix. On the other hand, due to the increasingly fierce competition, IC prices also dropped; therefore, effectively improving the performance of ICs, reducing IC production costs, establishing differentiated product characteristics, competitive technology thresholds and sales channels are the goals of the Company's continued efforts in 2020.

The most important applications in the touch control industry are smart phones, notebooks and tablets. As competitors have accelerated their investment in recent years, the number of manufacturers have increased and their production capacities have expanded. As a result, competition among the entire supply chain has intensified, and manufacturers that cannot maintain strong competitiveness cannot profit or are forced to withdraw from the competition.

As for the pointing stick products for notebooks, the Company currently ranks first in the world in terms of market share. The Company mainly supplies to the world's largest notebook manufacturers. The Company has successfully developed high anti-noise and anti-RFI interference pointing stick sensor ICs, gained a US customer, and continue expanding market share.

As for the MCUs, the Company will continue to develop lower power consumption IC platforms to provide customers with the best solutions, while strengthening the collaboration with solution companies in mainland China and providing the best cost-effective control ICs.

2. The R & D expenses is expected to be approximately NT\$1.6 billion.
- (4) The impact of important policies and legal changes at home and abroad on the Company's finance and business and the countermeasures therefor:

The Company has a legal department responsible for the research and collection of information related to intellectual property, laws, and important policies at home and abroad to truly understand the impact of this on the Company's finance and business and provide timely countermeasures therefor.

Recent changes in major policies and laws at home and abroad have no material adverse impact on the company's finance and business.

- (5) The impact of technological changes and industrial changes on the Company's finance and business and the countermeasures therefor:

The Company's diversified product lines can meet the needs of customers. The diversified product lines make the Company less subjective to technological changes than single product line or minority players. In recent years, the Company has actively sought multiple sources of production and has effectively controlled costs.

In addition, in terms of financial operations, the Company actively strengthened the management of cash flows and maintained a good financial structure to maintain the stable operation of the Company and diversify the operating risks. Therefore, technological changes have no significant impact on the finance and business of the Company.

- (6) The impact of corporate image change on corporate crisis management and the countermeasures therefor: N/A.
- (7) Expected benefits and possible risks from merger and acquisition and the countermeasures therefor: N/A.
- (8) Expected benefits and possible risks from the expansion of factory building and the countermeasures therefor: N/A.
- (9) Risks from concentration of incoming goods or sales and the countermeasures therefor:

The Company's customers and suppliers are quite dispersed, therefore, there will be no overconcentration of incoming and outgoing of goods.

- (10) The impact and risks on the Company when the Directors, supervisors or large shareholders holding more than 10% of shares transfer or replace a large number of shares:

There was no transfer or replacement of a large number of shares by the Directors, supervisors or large shareholders holding more than 10% of shares.

- (11) The impact and risks on the Company from the changes in the right to operate and the countermeasures therefor:

The Company has no significant changes in the Board of Directors in 2019, therefore, there will not be any changes in the right to operate.

- (12) Litigation or non-litigation events:
- (13) Other significant risks and countermeasures:
Information Security

After taken the relevance of domestic and international information security management trends and biz-core business into consideration, ELAN Microelectronics continues to strengthen and refine the information security management system to ensure the safety of company data, systems, equipment and

networks against accidental or malicious damages and inappropriate use, so that the information security system can operate continuously and steadily.

Information Security Risk Management Framework

In order for the information security management to operate effectively and sustainably, ELAN Microelectronics established the Information Security Management Committee, which is mainly responsible for reviewing the formulation of relevant policies, policies, systems and promotion of the organization of information security management, and regularly report the information security governance status to the Board of Directors. The President serves as the chairman, the Executive VP serves as the deputy chairman, and the head of the Information Management Department serves as the management representative. The Information Security Management Committee established functional teams based on professional division of labor to execute information security operations and to promote and implement information security policy. The information security risk management framework was reported in the board meeting on December 20, 2019.

The Company regularly evaluates information risk identification and related risk reduction measures every year, as follows

Name of the work/process	Identified risk and consequences	Risk reduction measures adopted
Software and hardware maintenance / data storage / information system operation	The tapes were not properly stored, causing tape damages and untraceable loss of the company's important information.	Purchase moisture-proof box to place the tapes and perform random inspection on tapes of less than 1-year old; the tapes shall be divided into groups for off-site storage.
Software and hardware maintenance / data storage / information system operation	Computer viruses, hacking, and malicious programs (trojans, viruses) causing system errors that affect company operations.	Perform anti-virus scans on a regular basis every week. Set and update firewall server information from time to time. Update anti-virus and download system repair from time to time.
Software and hardware maintenance / data storage / information system operation	Transmit copied files out of the company, causing leakage of confidential information.	Regularly check file copy log every month; control and register internally shared USB flash drives; check email related records regularly.
Information Management System / Electronic Document System / Internal and External Websites	System programs and data were executed, queried and/or modified without approval.	1. Users shall fill out the MIS request form and send it to the Management Information System Division for processing after obtaining sign and approval from the authorized supervisor. 2. For the authority to add, modify, query, print, etc., users shall fill out the MIS request form to apply and send it to the Management Information System Division for processing after obtaining sign and approval from the authorized supervisor.

7. Other Important Matters : N/A.

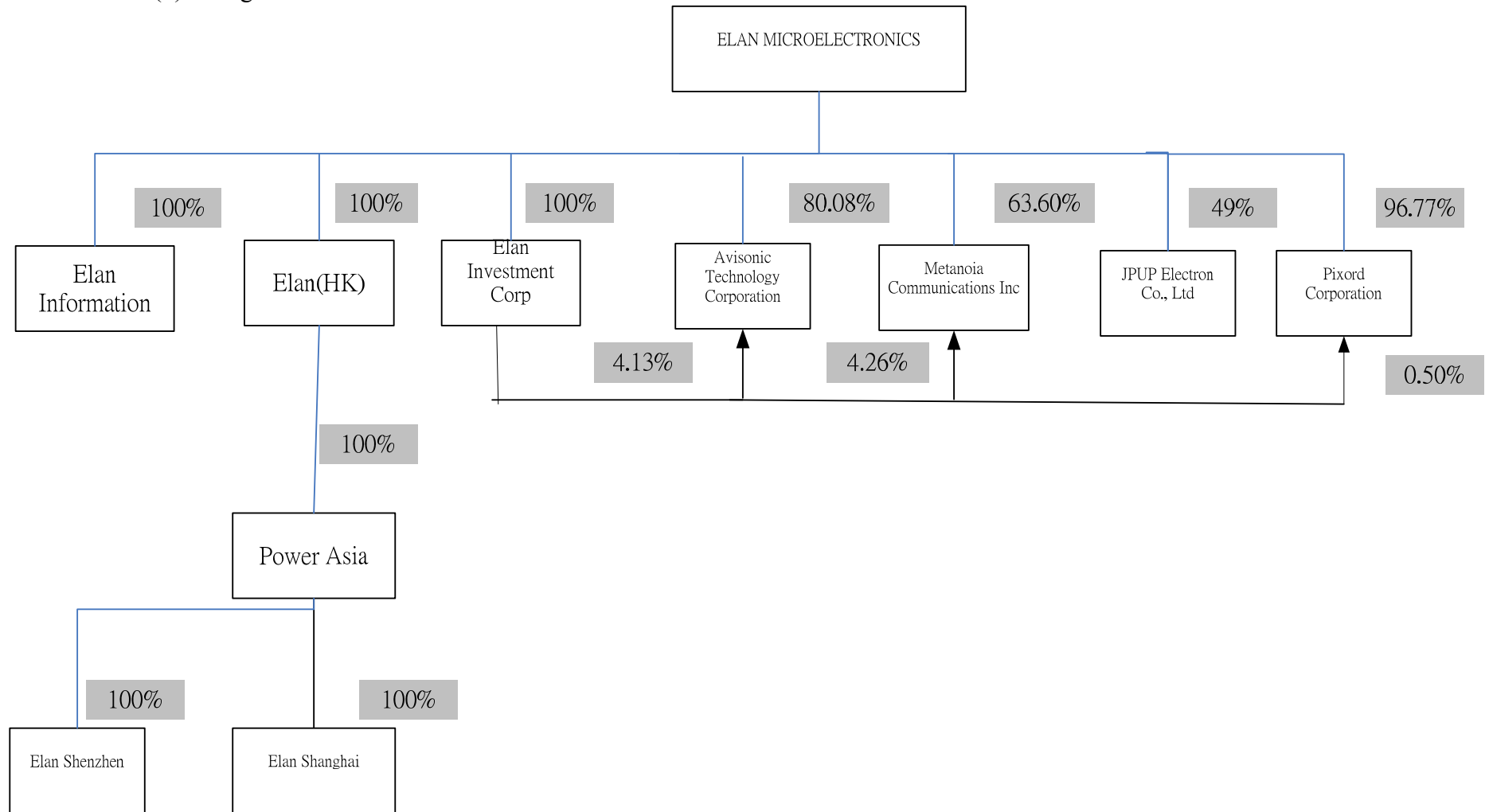
VIII. Special Disclosure

1. Summary of Affiliated Companies

(1) Consolidated business report of the affiliates

1. Overview of the affiliates

(1) Organizational chart of the affiliates:



Note: PiXORD Corporation changed its Chinese name on July 2019.

(2) Basic information of each affiliate:

Company name	Date of incorporation	Address	Paid-up capital	Main business or production items
Elan H.K Micro electronics Corp.	May 15, 1997	Flat A, 19/F., World Tech Centre, 95 How Ming Street, Kwun Tong, Kowloon, Hong Kong	HKD 29,328,003	Sales the Company's products, provide after-sales services, establish sales outlets
Elan Investment Corporation	May 31, 2000	Room#1, 5/F, No. 306, Section 1, Dunhua South Road, Taipei City	NTD 500,000,000	General investment business
Elan Information	Jan. 11, 2002	10062 MILLER AVE. SUITE 100, CUPERTINO CA95014	USD 650,000	Provide after-sales services, obtain product information and technologies
Power Asia Investment Corp.	Jun. 6, 2002	2nd Floor, Felix House, 24 Dr. Joseph Riviere Street, Port Louis, Republic of Mauritius.	USD 2,861,000	General investment business
Elan Shanghai Co., Ltd.	Aug. 6, 2002	Room 703, No. 3, Lane 88, Shengrong Road, Pudong New Area, Shanghai	USD 1,500,000	Information supply services
Elan Shenzhen Co., Ltd.	Jun. 6, 2003	8A Floor, Microprofit Building, Gaoxin South Road 6, Shenzhen Hi-Tech Industrial Park, South Area, Shenzhen	USD 1,000,000	Information supply services
Metanoia Communications Inc.	Dec. 1, 2003	3/F, No. 12, Chuangxin 1st Road, Hsinchu Science Park	NTD 153,000,000	Manufacture cable and wireless communication machinery and equipment, electronic components, wholesale and retail telecommunication equipment
Avisonic Technology Corporation	Dec. 22, 2003	7/F, No.12, Innovation 1st Rd., HsinChu Science Park	NTD 156,626,000	Research, design, manufacture and sale of multimedia video compression and impact processing ICs
JPUP Electron Co., Ltd.	Dec. 26, 2002	Room#13, 21/F, No. 1, Section 1, Zhongshan Road, Banqiao District, New Taipei City	NTD 16,000,000	Manufacture data storage and processing equipment, manufacture and wholesale of electronic components
PiXORD Corporation	Aug. 10, 2000	5/F, No. 12, Chuangxin 1st Road, Hsinchu Science Park	NTD 350,000,000	Export manufacturing, data storage and processing equipment, wireless communication machinery and equipment manufacturing

- (3) Information on party presumed to be related to be controlling and subsidiary company: N/A.
- (4) If the industries covered by the affiliates are related to each other in terms of business operations, the division of work shall be explained:

Company name	Main business or production items	Division of work
Elan H.K Micro electronics Corp.	Sales the Company's products, provide after-sales services, establish sales outlets	The Company's Asia-Pacific sales outlet
Elan Investment Corporation	General investment business	Not applicable
Elan Information Technology Group	Provide after-sales services, obtain product information and technologies	The Company's customer services outlet in North America
Power Asia Investment Corp.	General investment business	Not applicable
Elan Shanghai Co., Ltd.	Information supply services	The Company's development and customer service outlet in Eastern China market
Elan Shenzhen Co., Ltd.	Information supply services	The Company's development and customer services outlet in Southern China market
Metanoia Communications Inc.	Manufacture cable and wireless communication machinery and equipment, electronic components, wholesale and retail telecommunication equipment	Not applicable
Avisonic Technology Corporation	Research, design, manufacture and sale of multimedia video compression and impact processing ICs	Not applicable
JPUP Electron Co., Ltd.	Manufacture data storage and processing equipment, manufacture and wholesale of electronic components	The Company's foundry
PiXORD Corporation	Export manufacturing, data storage and processing equipment, wireless communication machinery and equipment manufacturing	Not applicable

(5) Name of the Directors, Supervisors and President of each affiliate and their shareholding status:

Company name	Job title	Name or representative	Shares held	
			Number of shares	Shareholding %
Elan H.K Microelectronics Corp.	Director	ELAN Microelectronics Corporation	29,328,000	100%
		Representative: YEH, I-HAU		
	Director	ELAN Microelectronics Corporation	29,328,000	100%
		Representative: YEH, I-MING		
	Director	ELAN Microelectronics Corporation	29,328,000	100%
		Representative: TSENG, WEN-YA		
Elan Investment Corporation	Chairman	ELAN Microelectronics Corporation	50,000,000	100%
		Representative: YEH, I-MING		
Elan Information Technology Group	Director and President	ELAN Microelectronics Corporation	65,000	100%
		Representative: JOE T. YEH		
Power Asia Investment Corp.	Director	Elan H.K Microelectronics Corp.	2,861,000	100%
		Representative: YEH, I-HAU		
Elan Shanghai Co., Ltd.	Chairman	Power Asia Investment Corp.	—	100%
		Representative: LI, I-CHING		
	Director	Power Asia Investment Corp.	—	100%
		Representative: WENG, CHING-HSIUNG		
	Director	Power Asia Investment Corp.	—	100%
		representative: YEH, I-MING		
Elan Shenzhen Co., Ltd.	Chairman	Power Asia Investment Corp.	—	100%
		Representative: LI, I-CHING		
	Director	Power Asia Investment Corp.	—	100%
		Representative: WENG, CHING-HSIUNG		
	Director	Power Asia Investment Corp.	—	100%
		Representative: YEH, I-MING		
Metanoia Communications Inc.	Chairman	ELAN Microelectronics Corporation	9,730,268	63.60%
		Representative: YEH, I-HAU		
	Director	ELAN Microelectronics Corporation	9,730,268	63.60%
		Representative: YEN, KUO-LUNG		
	Director	ELAN Microelectronics Corporation	9,730,268	63.60%
		Representative: LIU, TAI-MING		
	Supervisor	Elan Investment Corporation	652,678	4.27%
		Representative: LIN, YUNG-JEN		
Avisonic Technology Corporation	Chairman	ELAN Microelectronics Corporation	12,541,909	80.08%
		Representative: YEH, I-HAU		
	Director	ELAN Microelectronics Corporation	12,541,909	80.08%
		Representative: LIU, TAI-MING		
	Director	ELAN Microelectronics Corporation	12,541,909	80.08%
		Representative: YEN, KUO-LUNG		
	Director	ELAN Microelectronics Corporation	12,541,909	80.08%
		Representative: TAO, I-HSIN		
	Director	ELAN Microelectronics Corporation	12,541,909	80.08%
		Representative: LIN, MENG-CHUN		
JPUP Electron Co., Ltd.	Supervisor	Elan Investment Co., Ltd.	646,296	4.13%
		Representative: LIN, YUNG-JEN		
	Supervisor	Elan Investment Co., Ltd.	646,296	4.13%
		Representative: TSENG, WEN-YA		
	Director	ELAN Microelectronics Corporation	784,000	49.00%
		Representative: WU, TSUNG-HSIAO		
	Director	ELAN Microelectronics Corporation	784,000	49.00%
		Representative: TSAI, WEN-CHENG		
	Director	ELAN Microelectronics Corporation	784,000	49.00%
		Representative: HSIEH, WEN-YU		
PiXORD Corporation	Chairman	ELAN Microelectronics Corporation	33,871,283	96.78%
		Representative: YEH, I-HAU		
	Director	ELAN Microelectronics Corporation	33,871,283	96.78%
		Representative: LIN, MENG-CHUN		
	Director	ELAN Microelectronics Corporation	33,871,283	96.78%
		Representative: LIN, MENG-CHUN		

Company name	Job title	Name or representative	Shares held	
			Number of shares	Shareholding %
	Director	Representative: LI, MING-HSIA	33,871,283	96.78%
		ELAN Microelectronics Corporation		
		Representative: YANG, CHONG-LIANG		
	Director	ELAN Microelectronics Corporation	33,871,283	96.78%
		Representative: HU, CHONG-PING		
	Supervisor	Elan Investment Co., Ltd.	173,835	0.50%
		representative: LIN, YUNG-JEN		
	Supervisor	Elan Investment Co., Ltd.	173,835	0.50%
		representative: TSENG, WEN-YA		

2. Operating Highlights:

Operating Highlights of Each Affiliates

Unit: NT\$'000

company name	capital	total assets	total liabilities	net worth	operating income	operating profit	profit or loss of the period (post-tax)	earnings per share (post-tax)
Elan H.K	123,272	377,346	82,476	294,870	804,378	71,116	70,908	2.42
ELAN Investment	500,000	2,456,653	1,367	2,455,286	0	(920)	591,850	11.48
Elan Information	22,822	16,290	88	16,202	21,202	1,705	1,681	25.86
Metanoia Communications	153,000	204,987	422,400	(217,413)	89,240	(58,320)	(61,527)	(1.23)
Avisonic Technology	156,626	66,870	53,867	13,003	51,821	(46,888)	(47,686)	(1.50)
JPUP Electron	16,000	2,862	227	2,635	5,041	(5,147)	(5,147)	(3.22)
PiXORD (Note 2)	350,000	54,994	29,529	25,465	39,844	(26,728)	(26,818)	(0.77)
Fong Yue (Note 1)	30,000	0	0	0	0	0	(4,392)	(1.46)
Power Asia	98,368	25,015	0	25,015	0	(2)	1,715	0.6
Elan Shanghai	52,095	22,004	6,293	15,711	46,110	2,899	2,312	-
Elan Shenzhen	34,670	43,253	34,418	8,835	74,667	(792)	(606)	-

Note 1: Fong Yue was liquidated in January 2019.

Note 2: PiXORD Corporation changed its Chinese name on July 2019.

Note 3: Assets and liabilities categories adopted foreign currency exchange rates on the date of Dec. 31, 2019: [US\$1 : NT\$30.04], [HK\$1 : NT\$3.86], [RMB1 : NT\$4.31].
Profit and loss categories adopted average exchange rate of the year 2019: [US\$1 : NT\$30.728], [HK\$1 : NT\$3.93], [RMB1 : NT\$4.444].

(2) Consolidated financial statements of the affiliates:

Statement of the Consolidated Financial Statements of the Affiliates

The companies that the Company shall include in the 2019 (from January 1, 2019 to December 31, 2019) consolidated financial statements of the affiliates pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as the companies that shall be included in parent-subsidary consolidated financial statements pursuant to IFRS 10 adopted by Financial Supervisory Commission, and the relevant information that shall be disclosed in the consolidated financial statements of the affiliates has been disclosed in the parent-subsidary consolidated financial statements; therefore, the Company hereby declare that a separate consolidated financial statements of the affiliates will not be prepared.

Company name: ELAN Microelectronics Corporation

Responsible person: YEH, I-HAU

Date: March 10, 2020

2. **Private Placement Securities During the Last Fiscal Year and Until the Publishing date of the Annual Report: N/A.**
3. **The Shares in the Company Held or Disposed of by Subsidiaries During the Last Fiscal Year and Until the Publishing date of the Annual Report:**

Unit: NT\$; share; %

name of the subsidiary (Note 1)	paid-up capital	source of fund	the Company shareholding percentage	acquisition or disposal date	acquired number of shares and amount (Note 2)	disposed number of shares and amount (Note 2)	investment profit or loss	number of shares held and amount as of the publishing date of the annual reports (Note 3)	creation of pledge	amount endorsed by the Company for the subsidiary	amount the subsidiary borrowed from the Company
ELAN Investment	500,000	self-funding	100%	Oct. 1, 2008	17,573,679 shares; NT\$154,477,318	0	0	0	0	0	0
				as of the publishing date of the annual reports	12,438,199 shares; NT\$28,975,663	0	0	0	0 (Note 4)	0	0

Note 1: Please list the subsidiaries by type.

Note 2: "Amount" referred to actual acquisition or disposal amount.

Note 3: List the status of possession and disposal separately.

Note 4: Explains its impact on the Company's operation results and financial status: no impact.

4. **Other Necessary Supplementary Explanations: N/A.**

IX. Any matter that has material effect on the shareholders' equity or the price of securities as set out in sub-paragraph 2, paragraph 2, Article 36 of the Company Act during the last fiscal year and until the publishing date of the annual report:

N/A.

Public Company's Statement on Internal Control
Represents the effectiveness of both the design and execution
(This statement is applicable when all laws and ordinances are complied herewith)

ELAN Microelectronics Corporation
Statement on Internal Control

Date: December 31, 2019

The Company hereby undertakes the 2019 internal control system based on the results of the self-assessment as follows:

1. The Company acknowledges that establishing, implementing and maintaining the internal control system is the responsibility of the Board of Directors and managers of the company, and the Company has established such system. Its purpose is to reasonably assure the effectiveness and efficiency of operations (including profitability, performance, and protection of asset safety, etc.), reporting reliability, timeliness, transparency and compliance with relevant laws and regulations.
2. The internal control system has its inherent limitations. No matter how perfect the design is, an effective internal control system can only provide reasonable assurance for the achievement of the above three goals. Moreover, due to changes in the environment and conditions, the effectiveness of the internal control system may change. However, the Company's internal control system has a self-monitoring mechanism. Once the deficiency is identified, the Company will take immediate corrective action.
3. The Company determines the effectiveness of the design and implementation of the internal control system based on the internal control system identifiers set out in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as the "Regulations"). The internal control system identifiers adopted in the "Regulations" divided the internal control system into five items based on management control processes: (1) Control environment; (2) Risk assessment; (3) Control operations; (4) Information and communicate; and (5) Supervision. Each component includes several sub-items. Please refer to the provisions of the "Regulations" for details of the aforementioned items.
4. The Company has adopted the above-mentioned internal control system identifiers to assess the effectiveness of the design and implementation of the internal control system.
5. Based on the results of the foregoing evaluation, the Company believes that the Company's design and implementation of the internal control system (including the supervision and management of its subsidiaries) as of December 31, 2019^{Note2}, includes understanding the effectiveness of the operation, degree of achieving the goals, reliable reports, timeliness, transparency and compliance with relevant laws and regulations, are effective, and the abovementioned goals can be reasonably assured of achievement.
6. This statement will become a major part of the Company's annual report and public statement, and will be disclosed to the public. If any of the above disclosed content is false or hidden, it will be subject to legal obligations under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
7. This statement was adopted by the Board of Directors of the Company on March 10, 2020. Of the 7 attending Directors, 0 opposed, and all of them agree with the contents of this statement.

ELAN Microelectronics Corporation

Chairman: YEH, I-HAU (sign & seal)

PRESIDENT: YEH, I-HAU (sign & seal)

Note 1: If there are major deficiencies found in the design and implementation of the public company's internal control system during the year, the company shall add list and explanation for the major deficiencies found via self-assessment, and the Company's improvement actions taken before the balance sheet date and improvement status following the fourth item in the Statement on Internal Control.

Note 2: Date of the statement is "end of the fiscal year".