

**ELAN MICROELECTRONICS CORPORATION
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2020 and 2019**

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

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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, 2020 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, "Consolidated Financial Statements." endorsed by the Financial Supervisory Commission of the Republic of China. 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, I-Hau

Date: February 17, 2021



安侯建業聯合會計師事務所

KPMG

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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, 2020 and 2019, 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, based 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, 2020 and 2019, 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. Based 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 2.15% and 2.50% of the consolidated total assets at December 31, 2020 and 2019, respectively, and the related share of profit of associates and joint ventures accounted for using the equity method constituted 0.80% and 1.79% of the consolidated total income before tax for the year ended December 31, 2020 and 2019, respectively.

The Company has prepared its parent-company-only financial statements as of and for the years ended December 31, 2020 and 2019, 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 Note 4(h) for accounting policy on inventory, Note 5 for accounting estimations and assumption uncertainty of inventory valuation, and Note 6(d) for the write-down of inventories to net realizable value.

Description of key audit matter:

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 is at the risk of exceeding its net realizable value.

How the matter was addressed in our audit:

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

2. Revenue recognition

Please refer to Note 4(n) 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 indicator to evaluate the performance by investors and management, and thus, needs significant attention in our audit.

How the matter was addressed in our audit:

Our audit procedures in this area included, among others: testing the effectiveness of related controls of revenue recognition and, reviewing relevant sales documents to evaluate whether the revenue recognition was consistent with the accounting policy; performing trend analysis of the ten largest customers, so as to assess whether there was material abnormality, if any; testing the sales transactions before and after the end of the year and relevant documents to evaluate the accuracy of the amount and period of revenue recognition.

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)
February 17, 2021

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, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

| | | December 31, 2020 | | December 31, 2019 | | | | December 31, 2020 | | December 31, 2019 | |
|----------------------------|---|----------------------|------------|-------------------|------------|---------------------------------|--|----------------------|------------|-------------------|------------|
| | | Amount | % | Amount | % | | | Amount | % | Amount | % |
| Assets | | | | | | Liabilities and Equity | | | | | |
| Current assets: | | | | | | Current liabilities: | | | | | |
| 1100 | Cash and cash equivalents (notes 6(a) and (t)) | \$ 2,030,341 | 14 | 1,502,121 | 13 | 2100 | Short-term borrowings (notes 6(k) and (t)) | \$ 40,000 | - | 241,000 | 2 |
| 1110 | Current financial assets at fair value through profit or loss (notes 6(b) and (t)) | 969,808 | 8 | 778,442 | 7 | 2170 | Accounts payable (notes 6(t)) | 1,826,667 | 13 | 1,169,761 | 10 |
| 1170 | Notes and accounts receivable, net (notes 6(c), (t) and 7) | 2,162,216 | 15 | 1,195,296 | 11 | 2206 | Employee bonus payable (notes 6(s) and (t)) | 527,000 | 4 | 382,500 | 3 |
| 1200 | Other receivables (notes 6(c), (t)) | 1,474,775 | 10 | 835,141 | 7 | 2230 | Current tax liabilities | 802,401 | 6 | 278,873 | 2 |
| 1310 | Inventories, net (note 6(d)) | 1,782,653 | 12 | 1,386,202 | 12 | 2280 | Current lease liabilities (notes 6(l) and (t)) | 21,858 | - | 21,279 | - |
| 1410 | Prepayments and other current assets | 23,348 | - | 20,323 | - | 2300 | Other current liabilities (note 6(t)) | 1,343,720 | 9 | 964,528 | 10 |
| 1476 | Financial assets at amortized cost (notes 6(a) and (t)) | 2,742,850 | 19 | 2,289,450 | 21 | | | 4,561,646 | 32 | 3,057,941 | 27 |
| | | 11,185,991 | 78 | 8,006,975 | 71 | | | | | | |
| Non-current assets: | | | | | | Non-Current liabilities: | | | | | |
| 1510 | Non-current financial assets at fair value through profit or loss (notes 6(b) and (t)) | 1,023,849 | 8 | 1,360,622 | 12 | 2570 | Deferred tax liabilities (note 6(n)) | 1,244 | - | 2,097 | - |
| 1517 | Non-current financial assets at fair value through other comprehensive income (note 6(e) and (t)) | 304,352 | 2 | 191,833 | 2 | 2580 | Non-current lease liabilities (notes 6(l) and (t)) | 187,361 | 1 | 200,563 | 2 |
| 1551 | Investments accounted for using equity method (note 6(f)) | 319,622 | 2 | 330,837 | 3 | 2640 | Net defined benefit liability, non-current (note 6(m)) | 389,456 | 3 | 372,373 | 3 |
| 1600 | Property, plant and equipment (notes 6(h) and 7) | 872,781 | 6 | 760,537 | 7 | 2645 | Guarantee deposits received (note 6(t)) | 39,427 | - | 10,766 | - |
| 1755 | Right-of-use assets (note 6(i)) | 205,921 | 1 | 220,483 | 2 | | | 617,488 | 4 | 585,799 | 5 |
| 1780 | Intangible assets (note 6(j)) | 449,557 | 3 | 304,219 | 3 | | Total liabilities | 5,179,134 | 36 | 3,643,740 | 32 |
| 1840 | Deferred tax assets (note 6(n)) | 33,221 | - | 31,862 | - | | Equity attributable to owners of parent: (notes 6(o) and (p)) | | | | |
| 1900 | Other non-current assets (note 6(t)) | 56,896 | - | 19,524 | - | 3100 | Capital stock | 3,038,804 | 20 | 3,038,804 | 27 |
| 1960 | Prepayments for investments | - | - | 20,000 | - | 3200 | Capital surplus | 519,638 | 4 | 375,945 | 3 |
| | | 3,266,199 | 22 | 3,239,917 | 29 | | Retained earnings: | | | | |
| | | | | | | 3310 | Legal reserve | 1,825,597 | 13 | 1,575,923 | 14 |
| | | | | | | 3350 | Undistributed earnings | 3,692,218 | 25 | 2,577,324 | 24 |
| | | | | | | | | 5,517,815 | 38 | 4,153,247 | 38 |
| | | | | | | 3400 | Other equity | 3,340 | - | 129,910 | 1 |
| | | | | | | 3500 | Treasury shares | (28,975) | - | (28,975) | - |
| | | | | | | | Total equity attributable to owners of parent: | 9,050,622 | 62 | 7,668,931 | 69 |
| | | | | | | 36XX | Non-controlling interests | 222,434 | 2 | (65,779) | (1) |
| | | | | | | | Total equity | 9,273,056 | 64 | 7,603,152 | 68 |
| Total assets | | \$ 14,452,190 | 100 | 11,246,892 | 100 | | Total liabilities and equity | \$ 14,452,190 | 100 | 11,246,892 | 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, 2020 and 2019

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

| | 2020 | | 2019 | |
|--|---------------------|------------|------------------|-----------|
| | Amount | % | Amount | % |
| 4000 Operating revenue (notes 6(q), 7 and 14) | \$ 15,099,690 | 100 | 9,487,977 | 100 |
| 5000 Operating costs (notes 6(d), (m) and 7) | <u>8,045,231</u> | <u>53</u> | <u>5,074,045</u> | <u>53</u> |
| 5900 Gross profit from operations | 7,054,459 | 47 | 4,413,932 | 47 |
| 5920 Add: Realized profit (loss) from sales | <u>(263)</u> | <u>-</u> | <u>2,756</u> | <u>-</u> |
| 5950 Gross profits | <u>7,054,196</u> | <u>47</u> | <u>4,416,688</u> | <u>47</u> |
| 6000 Operating expenses: (notes 6(c), (m) and 12) | | | | |
| 6100 Selling expenses | 535,271 | 4 | 399,234 | 4 |
| 6200 Administrative expenses | 436,498 | 3 | 347,521 | 4 |
| 6300 Research and development expenses | 1,858,343 | 12 | 1,596,392 | 17 |
| 6450 Impairment gain and loss determined in accordance with IFRS 9 | <u>6,885</u> | <u>-</u> | <u>(7,885)</u> | <u>-</u> |
| | <u>2,836,997</u> | <u>19</u> | <u>2,335,262</u> | <u>25</u> |
| 6900 Operating income | <u>4,217,199</u> | <u>28</u> | <u>2,081,426</u> | <u>22</u> |
| 7000 Non-operating income and expenses: | | | | |
| 7100 Interest income (note 6(r)) | 31,480 | - | 41,410 | - |
| 7010 Other income (note 6(r)) | 72,652 | - | 79,944 | 1 |
| 7020 Other gains and losses (notes 6(r) and 7) | (445,033) | (3) | 570,665 | 6 |
| 7050 Finance costs | (5,712) | - | (9,467) | - |
| 7770 Share of gain of associates accounted for using equity method (note 6(f)) | <u>23,106</u> | <u>-</u> | <u>45,682</u> | <u>1</u> |
| | <u>(323,507)</u> | <u>(3)</u> | <u>728,234</u> | <u>8</u> |
| 7900 Profit before tax | 3,893,692 | 25 | 2,809,660 | 30 |
| 8110 Less: Income tax expenses (note 6(n)) | <u>700,654</u> | <u>5</u> | <u>344,918</u> | <u>4</u> |
| Net profit | <u>3,193,038</u> | <u>20</u> | <u>2,464,742</u> | <u>26</u> |
| 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 | (17,150) | - | 4,968 | - |
| 8316 Unrealized gains (loss) from investments in equity instruments measured at fair value through other comprehensive income | (15,191) | - | 26,142 | - |
| 8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>(32,341)</u> | <u>-</u> | <u>31,110</u> | <u>-</u> |
| 8360 Components of other comprehensive income (loss) that will be reclassified to profit or loss | | | | |
| 8361 Exchange differences on translation of foreign financial statements | (1,078) | - | (1,281) | - |
| 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 | 18 | - | (37) | - |
| 8399 Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Components of other comprehensive income that will be reclassified to profit or loss | <u>(1,060)</u> | <u>-</u> | <u>(1,318)</u> | <u>-</u> |
| 8300 Other comprehensive income (loss), net | <u>(33,401)</u> | <u>-</u> | <u>29,792</u> | <u>-</u> |
| 8500 Comprehensive income | <u>\$ 3,159,637</u> | <u>20</u> | <u>2,494,534</u> | <u>26</u> |
| Net profit attributable to: | | | | |
| 8610 Owners of parent | \$ 3,245,811 | 20 | 2,496,744 | 26 |
| 8620 Non-controlling interests | <u>(52,773)</u> | <u>-</u> | <u>(32,002)</u> | <u>-</u> |
| | <u>\$ 3,193,038</u> | <u>20</u> | <u>2,464,742</u> | <u>26</u> |
| Comprehensive income attributable to: | | | | |
| 8710 Owners of the parent | \$ 3,213,221 | 20 | 2,526,686 | 26 |
| 8720 Non-controlling interests | <u>(53,584)</u> | <u>-</u> | <u>(32,152)</u> | <u>-</u> |
| | <u>\$ 3,159,637</u> | <u>20</u> | <u>2,494,534</u> | <u>26</u> |
| Earnings per share (expressed in dollars) (note 6(p)) | | | | |
| 9710 Basic earnings per share | <u>\$ 11.14</u> | | <u>8.57</u> | |
| 9850 Diluted earnings per share | <u>\$ 10.97</u> | | <u>8.44</u> | |

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, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

| | Equity attributable to owners of parent | | | | | | | | | |
|---|---|-----------------|-------------------|----------------------------------|---|---|-----------------|---|---------------------------|--------------|
| | Ordinary shares | Capital surplus | Retained earnings | | Total other equity interest | | Treasury shares | Total equity attributable to owners of parent | Non-controlling interests | Total equity |
| | | | Legal reserve | Unappropriated retained earnings | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | | | | |
| | | | | | | | | | | |
| Balance at January 1, 2019 | \$ 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 |
| Net profit | - | - | - | 3,245,811 | - | - | - | 3,245,811 | (52,773) | 3,193,038 |
| Other comprehensive income | - | - | - | (16,339) | (1,060) | (15,191) | - | (32,590) | (811) | (33,401) |
| Total comprehensive income | - | - | - | 3,229,472 | (1,060) | (15,191) | - | 3,213,221 | (53,584) | 3,159,637 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | |
| Legal reserve appropriated | - | - | 249,674 | (249,674) | - | - | - | - | - | - |
| Cash dividends of ordinary share | - | - | - | (1,975,223) | - | - | - | (1,975,223) | - | (1,975,223) |
| Other changes in capital surplus: | | | | | | | | | | |
| Adjustments of capital surplus for company's cash dividends received by subsidiaries | - | 80,848 | - | - | - | - | - | 80,848 | - | 80,848 |
| Issuance of shares for non-controlling interests | - | - | - | - | - | - | - | - | 319,267 | 319,267 |
| Changes in non-controlling interests | - | 62,845 | - | - | - | - | - | 62,845 | 22,530 | 85,375 |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | - | - | - | 110,319 | - | (110,319) | - | - | - | - |
| Balance at December 31, 2020 | \$ 3,038,804 | 519,638 | 1,825,597 | 3,692,218 | (6,597) | 9,937 | (28,975) | 9,050,622 | 222,434 | 9,273,056 |

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, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

| | 2020 | 2019 |
|---|--------------|-------------|
| Cash flows from operating activities: | | |
| Profit before tax | \$ 3,893,692 | 2,809,660 |
| Adjustments: | | |
| Adjustments to reconcile profit: | | |
| Depreciation expense | 98,775 | 76,557 |
| Amortization expense | 92,525 | 47,023 |
| Expected credit loss (gain) | 6,885 | (7,885) |
| Net loss (gain) on financial assets at fair value through profit or loss | 308,507 | (601,235) |
| Interest expense | 5,712 | 9,467 |
| Interest income | (31,480) | (41,410) |
| Dividend income | (44,985) | (25,688) |
| Share of gains of associates accounted for using equity method | (23,106) | (45,682) |
| Loss on disposal of property, plant and equipment | 3,030 | 678 |
| Gain on disposal of investment properties | (13,754) | - |
| Difference between net pension liability and actual appropriations | (67) | (1,478) |
| Impairment loss and disposal loss on inventory | 83,388 | 123,050 |
| Others | (1,662) | (2,115) |
| Total adjustments to reconcile profit | 483,768 | (468,718) |
| Changes in operating assets and liabilities: | | |
| Increase in notes and accounts receivable | (926,791) | (82,676) |
| Increase in inventories | (460,186) | (352,999) |
| Decrease in prepayments and other current assets | 1,757 | 24,810 |
| Increase in other receivables | (646,574) | (177,086) |
| Increase in notes and accounts payable | 626,260 | 194,183 |
| Increase in other current liabilities | 486,872 | 10,662 |
| Cash inflow generated from operations | 3,458,798 | 1,957,836 |
| Interest received | 31,627 | 41,440 |
| Interest paid | (5,934) | (9,403) |
| Income taxes paid | (179,339) | (338,220) |
| Net cash flows from operating activities | 3,305,152 | 1,651,653 |
| Cash flows used in investing activities: | | |
| Dividends received | 46,657 | 27,473 |
| Increase in financial assets at amortized cost | (453,400) | (529,970) |
| Acquisition of investment accounted for using equity method | - | (62,201) |
| Acquisition of financial assets at fair value through profit or loss | (2,253,236) | (363,062) |
| Proceeds from disposal of current financial assets at fair value through profit or loss | 2,052,473 | 237,201 |
| Proceeds from capital reduction of financial assets at fair value through profit or loss | 44,456 | 51,338 |
| Acquisition of financial assets at fair value through other comprehensive income | (268,800) | - |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | 140,691 | 86,015 |
| Increase in prepayments for investments | - | (20,000) |
| Net cash inflows from business combination | 123,128 | - |
| Acquisition of property, plant and equipment | (149,835) | (50,908) |
| Proceeds from disposal of property, plant and equipment | 1,060 | - |
| Acquisition of intangible assets | (234,722) | (125,924) |
| Decrease (increase) in refundable deposits | - | 461 |
| Decrease (increase) in other non-current assets | (35,793) | 5,633 |
| Net cash flows used in investing activities | (987,321) | (743,944) |
| Cash flows used in financing activities: | | |
| Increase in short-term loans | 98,000 | 616,000 |
| Decrease in short-term loans | (299,000) | (618,000) |
| Increase in guarantee deposits received | 13,366 | 89 |
| Payment of lease liabilities | (26,869) | (27,616) |
| Cash dividends paid | (1,894,375) | (1,457,211) |
| Change in non-controlling interests | 319,267 | 5,377 |
| Net cash flows used in financing activities | (1,789,611) | (1,481,361) |
| Net increase (decrease) in cash and cash equivalents | 528,220 | (573,652) |
| Cash and cash equivalents at the beginning of period | 1,502,121 | 2,075,773 |
| Cash and cash equivalents at the end of period | \$ 2,030,341 | 1,502,121 |

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, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

Elan Microelectronics Corp. (hereinafter referred to as the “Company”) was incorporated on May 5, 1994, under the approval of Ministry of Economic Affairs, Republic of China (“R.O.C.”). The Group is located at 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 was the surviving company, and Elantech was dissolved in the merger effective from 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 (R.O.C.). Elantech was located at Zhonghe District, New Taipei City. The major business activities of Elantech are the research, manufacture, and sale of wireless and wired communication equipment and electronic 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 for the years ended December 31, 2020 and 2019 were authorized for issuance by the Board of Directors on February 17, 2021.

(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 details of impact on the Group’s adoption of the new amendments beginning January 1, 2020 are as follows:

- (i) Amendments to IFRS 16 “COVID-19-Related Rent Concessions”

As a practical expedient, a lessee may elect not to assess whether a rent concession that meets certain conditions is a lease modification, rather any changes in lease liability are recognized in profit or loss. The amendments have been endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) in July 2020, earlier application from January 1, 2020 is permitted. Related accounting policy is explained in Note 4(k).

The Group has elected to apply the practical expedient for all rent concessions that meet the criteria beginning January 1, 2020, with early adoption. No adjustment was made upon the initial application of the amendments. The amounts recognized in profit or loss for the year ended December 31, 2020 was \$590 thousand.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Other amendments

The following new amendments, effective January 1, 2020, do not have a significant impact on the Group's consolidated financial statements:

- Amendments to IFRS 3 "Definition of a Business"
- Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"
- Amendments to IAS 1 and IAS 8 "Definition of Material"

(b) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its consolidated financial statements:

- Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2"

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

The Group does not expect the following new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"
- IFRS 17 "Insurance Contracts" and amendments to IFRS 17 "Insurance Contracts"
- Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"
- Amendments to IAS 16 "Property, Plant and Equipment – Proceeds before Intended Use"
- Amendments to IAS 37 "Onerous Contracts – Cost of Fulfilling a Contract"
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 "Reference to the Conceptual Framework"

(4) Summary of significant accounting policies:

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 are 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.

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, 2020 | December 31, 2019 | |
| The Company | Elan Investment Corp. | Investment holding | 100.00 % | 100.00 % | - |
| 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 | 51.57 % | 67.86 % | note 4 |

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| Name of investor | Name of subsidiary | Principal activity | Shareholding | | Note |
|---------------------------------------|--|--|-------------------|-------------------|--------|
| | | | December 31, 2020 | December 31, 2019 | |
| The Company and Elan Investment Corp. | Avisonic Technology Corp. (Avisonic) | Research, design, develop, manufacture and sale on digital image-process chips | 84.21 % | 84.21 % | |
| The Company | JPUP Electron Co., Ltd. (JPUP) | Wholesale and installation of electronic devices, data storage and equipment process | 49.00 % | 49.00 % | note 1 |
| The Company and Elan Investment Corp. | PiXORD Corporation (PiXORD) | Research, design, develop, manufacture and sale on Webcam and server | 98.23 % | 97.27 % | note 6 |
| The Company and Elan Investment Corp. | Eminent Electronic Technology Corp. Ltd. (Eminent) | Manufactures and sells electronic devices, computer and its related products, manufactures optical instruments | 43.98 % | - % | note 2 |
| The Company | RisingStar Technology Company Limited (RisingStar) | Software information and supply of electronic services | 86.96 % | - % | note 3 |
| The Company | Bruckewell Technology Co., Ltd. (Bruckewell) | Manufactures and sells electronics devices | 61.16 % | - % | note 5 |
| 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 % | - |

Note 1: The Company obtained 3 out of 5 Board seats, and gained control over JPUP.

Note 2: On February 19, 2020, the Company obtained 3 out of 5 Board seats and gained control over Eminent, thus, the investee has been included in the consolidated financial statements since then.

Note 3: On January 31, 2020, the Company acquired 86.96% equity of RisingStar, thus, the investee has been included in the consolidated financial statements since then.

Note 4: In February and March, 2020, the Company's ownership decreased to 51.57% after participating in the capital increase of Metanoia.

Note 5: On May 31, 2020, the Company acquired additional 22.51% equity of Bruckewell and accordingly, the Company's ownership increased from 38.65% to 61.16%. Bruckewell has been included in the consolidated financial statements since then.

Note 6: On August, 2020, the Company's ownership increased to 98.23% after participating in the capital increase of PiXORD.

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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. An account 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:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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.

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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 months 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 asset 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 charged 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
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In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value, and recognizes the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Group may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income will be recognized on the same basis as would be required if the Group had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount will be reclassified to profit or loss.

(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 equipment: 2~6 years
- 3) Transportation and office equipment: 1~10 years

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

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(k) Leases

(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
- 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.

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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;
- 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 are 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.

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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.

As a practical expedient, the Group elects not to assess whether all rent concessions that meets all the following conditions are lease modifications or not:

- 1) the rent concessions occurring as a direct consequence of the COVID-19 pandemic;
- 2) the change in lease payments that resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- 3) any reduction in lease payments that affects only those payments originally due on, or before, June 30, 2021; and
- 4) there is no substantive change in other terms and conditions of the lease.

In accordance with the practical expedient, the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

(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 IFRS 15 to allocate the consideration in the contract.

(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.

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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.

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

| | |
|------------------------|------------|
| Patents | 1~10 years |
| Computer software cost | 1~6 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.

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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.

(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.

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(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) Government grants

The Group recognizes an unconditional government grant as other income when the grant becomes receivable. Grants that compensate the Group for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

(q) 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.

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.

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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.

(r) 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.

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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.

(s) **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.

(t) **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.

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(u) 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.

The accounting policies involved significant judgments and the information that have significant effect on the amounts recognized in the consolidated financial statements are as follows:

Judgment of whether the Group has substantive control over its investees

The Group holds 24.69% of the outstanding voting shares of Uniband Electronic Corp. and is the single largest shareholder of the investee. Although the remaining 75.31% of Uniband Electronic Corp.'s shares are not concentrated within specific shareholders, the Group still cannot obtain more than half of the total number of Uniband Electronic Corp.'s directors, and it also cannot obtain more than half of the voting rights at a shareholders' meeting. Therefore, it is determined that the Group has significant influence on Uniband Electronic Corp..

The Group holds 23.08% of the outstanding voting shares of Finger Pro. Incorporation and is the single largest shareholder of the investee. Although the remaining 76.92% of Finger Pro. Incorporation's shares are not concentrated within specific shareholders, the Group still cannot obtain more than half of the total number of Finger Pro. Incorporation's directors, and it also cannot obtain more than half of the voting rights at a shareholders' meeting. Therefore, it is determined that the Group has significant influence on Finger Pro. Incorporation.

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.

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(6) Explanation of significant accounts:

(a) Cash and cash equivalents

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Petty cash | \$ 737 | 353 |
| Checking and demand deposits | 1,739,104 | 1,101,958 |
| Time deposits with maturities of three months or less | <u>290,500</u> | <u>399,810</u> |
| | <u>\$ 2,030,341</u> | <u>1,502,121</u> |

- (i) As of December 31, 2020 and 2019, time deposits with maturities of more than three months held by the Group amounted to \$2,742,850 thousand and \$2,289,450 thousand, respectively, and were recorded as financial assets measured at fair value.
- (ii) The Group did not recognize impairment loss on financial assets measured at fair value for the years ended December 31, 2020 and 2019. Other information relating to credit risk is provided in Note 6(t).
- (iii) Please refer to Note 6(t) for the interest rate risk and fair value sensitivity analysis of the financial assets and liabilities of the Group.

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

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Mandatorily measured at fair value through profit or loss: | | |
| Current: | | |
| Listed stocks | \$ 4,310 | 6,680 |
| Open-end certificates of beneficial interest | 905,044 | 617,680 |
| Short-term commercial papers | <u>60,454</u> | <u>154,082</u> |
| Subtotal | <u>969,808</u> | <u>778,442</u> |
| Non-current: | | |
| Non-publicly traded stocks | 964,682 | 1,330,470 |
| Unlisted funds | <u>59,167</u> | <u>30,152</u> |
| Subtotal | <u>1,023,849</u> | <u>1,360,622</u> |
| Total | <u>\$ 1,993,657</u> | <u>2,139,064</u> |

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(c) Notes and accounts receivable

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Notes receivable | \$ 5,343 | 167,777 |
| Accounts receivable - fair value through other comprehensive income | 772,934 | 489,034 |
| Accounts receivable - measured at amortized cost | 1,419,193 | 566,854 |
| Less: Loss allowance | <u>(35,254)</u> | <u>(28,369)</u> |
| | <u>\$ 2,162,216</u> | <u>1,195,296</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 was determined as follows:

| December 31, 2020 | | | |
|----------------------------|----------------------------------|--|---------------------------------|
| | Gross carrying amount | Weighted- average loss rate | Expected credit loss |
| Current | \$ 2,061,924 | 0.36% | 7,366 |
| 1 to 30 days past due | 96,834 | 1.94% | 1,878 |
| 31 to 60 days past due | 8,953 | 12.83% | 1,149 |
| 61 to 90 days past due | 8,524 | 44.85% | 3,823 |
| More than 90 days past due | <u>21,235</u> | 50%~100% | <u>21,038</u> |
| | <u>\$ 2,197,470</u> | | <u>35,254</u> |

| December 31, 2019 | | | |
|----------------------------|----------------------------------|--|---------------------------------|
| | Gross carrying amount | Weighted- average 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 | <u>24,586</u> | 50%~100% | <u>24,578</u> |
| | <u>\$ 1,223,665</u> | | <u>28,369</u> |

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

| | 2020 | 2019 |
|---------------------------------------|-------------------------|----------------------|
| Balance at January 1, 2020 and 2019 | \$ 28,369 | 43,208 |
| Impairment loss recognized (reversed) | 6,885 | (7,885) |
| Amounts written off | - | (6,954) |
| Balance at December 31, 2020 and 2019 | <u><u>\$ 35,254</u></u> | <u><u>28,369</u></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, 2020 | | | | | | |
|--------------------------|----------------------------------|---------------------------|----------------------------|---|-----------------------------------|-------------------|
| Purchaser | Accounts derecognized | Factoring Line | Advanced Amount | Amount Recognized in Other Receivables | Range of Interest Rate | Collateral |
| Financial Institution | <u>\$ 1,390,090</u> | <u>2,880,000</u> | <u>-</u> | <u>1,390,090</u> | <u>0.05%~0.10%</u> | None |

| 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 |

The Group has deducted the advanced amount from the accounts receivable in accordance with the condition of derecognition as of December 31, 2020 and 2019. 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, 2020 and 2019, and other information on credit risk is disclosed in Note 6(t).

(d) Inventories

| | December 31, 2020 | December 31, 2019 |
|------------------|------------------------------|------------------------------|
| Raw materials | \$ 657,429 | 384,562 |
| Work in progress | 851,032 | 717,574 |
| Finished goods | <u>274,192</u> | <u>284,066</u> |
| | <u><u>\$ 1,782,653</u></u> | <u><u>1,386,202</u></u> |

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The details of the cost of sales are as follows:

| | 2020 | 2019 |
|------------------------------|----------------------------|-------------------------|
| Inventory that has been sold | \$ 7,962,184 | 4,951,119 |
| Write-down of inventories | 83,388 | 123,050 |
| Others | <u>(341)</u> | <u>(124)</u> |
| | <u>\$ 8,045,231</u> | <u>5,074,045</u> |

As of December 31, 2020 and 2019, the Group had not provided any inventories as collateral for its loans.

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

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Equity investments at fair value through other comprehensive income: | | |
| Emerging stocks | \$ 13,732 | 11,924 |
| Quoted shares | <u>290,620</u> | <u>179,909</u> |
| | <u>\$ 304,352</u> | <u>191,833</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 2020 and 2019, the shares sold had a fair value of \$140,691 thousand and \$86,015 thousand and the Group realized a gain of \$110,319 thousand and \$66,937 thousand, which is already included in other comprehensive income. The gain has been transferred to retained earnings.

(iii) For market risk, please refer to note 6(t).

(iv) As of December 31, 2020 and 2019, the Group had not provided 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, 2020 | December 31, 2019 |
|------------|------------------------------|------------------------------|
| Associates | <u>\$ 319,622</u> | <u>330,837</u> |

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

| | | | December 31, 2020 | | December 31, 2019 | |
|---|--|--------|-------------------|------------------|-------------------|------------------|
| | | | Principal country | Shareholding (%) | Amount | Shareholding (%) |
| | 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. | 11,712 | 45.07 | 11,712 | 45.07 |
| Eminent Electronic Technology Corp. Ltd. (note 1) | Manufactures and sells electronic devices, computer and its related products, and manufactures optical instruments | R.O.C. | - | - | 90,582 | 43.98 |
| 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 | 50,000 | 24.69 |
| Finger Pro. Incorporation | Manufactures and sells electronic devices | 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>\$ 415,418</u> | | <u>506,000</u> | |

Note 1: The Company obtained 3 out of 5 Board seats on February 19, 2020 and gained control over the investee, thus, the investee has been included in the consolidated financial statements since then.

(i) Associates

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

| | 2020 | 2019 |
|--|------------------|---------------|
| The Group's share of gain (loss) of associates accounted for using equity method | \$ <u>23,106</u> | <u>45,682</u> |

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

| | 2020 | 2019 |
|--|------------------|---------------|
| Attributable to the Group: | | |
| Gain (loss) from continuing operations | \$ 23,106 | 45,682 |
| Other comprehensive income (loss) | 18 | (37) |
| Comprehensive income (loss) | <u>\$ 23,124</u> | <u>45,645</u> |

The Group recognized \$20,000 thousand for prepayments for investments in RisingStar Technology Company Limited as of December 31, 2019, and obtained the equity on January 31, 2020.

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(ii) Pledges

As of December 31, 2020 and 2019, the Group had not provided any investments accounted for using the equity method as collateral for its loans.

(g) Business combinations

- (i) 1) The Group expects to improve its management synergy. Therefore, on February 29, 2020, the Company gained control over Eminent. The Group's equity interest in Eminent is 43.98%. The main business activities of Eminent are the manufacturing and sales of optical instruments, electronic devices, computer and related products.
- 2) The following table summarized the consideration paid for Eminent and the fair values of the assets acquired, and liabilities assumed at the acquisition date, as well as the fair value of the non-controlling interest at the acquisition date:

| | |
|---|-------------------|
| | 109.2.19 |
| Fair value of pre-existing interest in Eminent | \$ 54,466 |
| Non-controlling interest in the acquire, if any | 69,376 |
| | \$ 123,842 |
| Current assets | |
| Cash and cash equivalents | \$ 105,009 |
| Accounts receivables | 70,642 |
| Inventories | 17,064 |
| Prepayments | 2,538 |
| Non-current assets | |
| Property, plant and equipment (note 6(h)) | 29,697 |
| Intangible assets (note 6(j)) | 247 |
| Other non-current assets | 36 |
| Guarantee deposits | 5 |
| Current liabilities | |
| Accounts payables | (27,695) |
| Other payables | (719) |
| Other current liabilities | (30,631) |
| Guarantee deposits | (42,351) |
| Total identifiable net assets acquired | \$ 123,842 |

- 3) After the business combinations, the Group's equity interest in Eminent did not change. The Group recognized its profit based on the fair value remeasurement amounting to \$15,000 thousand; please refer to note 6(r).

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- (ii) 1) The Group expects to enhance its AI's business development and operational efficiency, therefore, on January 31, 2020, the Group participated in RisingStar's capital increased by cash contribution. The Group acquired 86.96% shares of RisingStar at an investment cost of \$20,000 thousands and gained control over it.
- 2) The following table summarized the consideration paid for RisingStar and the fair values of the assets acquired, and liabilities assumed at the acquisition date, as well as the fair value of the non-controlling interest at the acquisition date:

| | |
|---|------------------|
| | 109.2.19 |
| Consideration paid by cash | \$ 20,000 |
| Current assets | |
| Cash and cash equivalents | \$ 18,119 |
| Prepayments | 169 |
| Non-current assets | |
| Property, plant and equipment (note 6(h)) | 280 |
| Intangible assets (note 6(j)) | 2,857 |
| Guarantee deposits | 78 |
| Current liabilities | |
| Other current liabilities | (1,503) |
| Total identifiable net assets acquired | \$ 20,000 |

- (iii) 1) On May 31, 2020, the Company participated in Bruckewell's capital increased by cash contribution. The Company's ownership increased from 38.65% to 61.16% and had control over the investee.
- 2) The following table summarizes the acquisition-date fair value of major class of consideration transferred.

| | |
|---|---------------------|
| | May 31, 2020 |
| Cash | \$ 12,000 |
| Fair value of pre-existing in Bruckewell | 4,047 |
| Non-controlling interest in the acquire, if any | 8,735 |
| | \$ 24,782 |

- 3) The following table summarized the consideration paid for Bruckewell and the fair value of the assets acquired, and liabilities assumed at the acquisition date, as well as the fair value of the non-controlling interest at the acquisition date:

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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Current assets

| | |
|---------------------------|-----------|
| Cash and cash equivalents | \$ 11,542 |
| Accounts receivables | 3,428 |
| Inventories | 2,589 |
| Other current assets | 2,158 |

Non-current assets

| | |
|---|--------|
| Property, plant and equipment (note 6(h)) | 10,008 |
| Intangible assets (note 6(j)) | 37 |
| Guarantee deposits | 5 |

Current liabilities

| | |
|--|-------------------------|
| Other current liabilities | (4,985) |
| Total identifiable net assets acquired | <u><u>\$ 24,782</u></u> |

- 4) The Group re-measured the fair value of its existing equity interest in Bruckewell 38.65% before the business combination, and the resulting loss of \$1,246 thousand; please refer to note 6(r).

(h) 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 and prepayments on construction</u> | <u>Total</u> |
|---------------------------------|--------------------------|-------------------------|--------------------------------|--|---|-------------------------|
| Cost: | | | | | | |
| Balance as of January 1, 2020 | \$ 230,790 | 1,089,827 | 518,632 | 151,594 | 8,567 | 1,999,410 |
| Acquisitions | - | - | 32,960 | 4,345 | 2,680 | 39,985 |
| Additions | - | 68,184 | 44,155 | 10,205 | 27,291 | 149,835 |
| Derecognized | - | - | (23,542) | (6,012) | - | (29,554) |
| Reclassification | - | 4,374 | 3,713 | 78 | (8,087) | 78 |
| Effect of exchange rate changes | - | - | 16 | 20 | - | 36 |
| Balance as of December 31, 2020 | <u><u>\$ 230,790</u></u> | <u><u>1,162,385</u></u> | <u><u>575,934</u></u> | <u><u>160,230</u></u> | <u><u>30,451</u></u> | <u><u>2,159,790</u></u> |
| 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><u>\$ 230,790</u></u> | <u><u>1,089,827</u></u> | <u><u>518,632</u></u> | <u><u>151,594</u></u> | <u><u>8,567</u></u> | <u><u>1,999,410</u></u> |

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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| | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Office and transportation equipment</u> | <u>Equipment awaiting examination and prepayments on construction</u> | <u>Total</u> |
|---------------------------------|-------------------|------------------|--|--|---|------------------|
| Accumulated depreciation: | | | | | | |
| Balance as of January 1, 2020 | \$ - | 677,667 | 427,276 | 133,930 | - | 1,238,873 |
| Depreciation | - | 16,818 | 48,300 | 8,451 | - | 73,569 |
| Derecognized | - | - | (19,571) | (5,893) | - | (25,464) |
| Effect of exchange rate changes | - | - | 15 | 16 | - | 31 |
| Balance as of December 31, 2020 | <u>\$ -</u> | <u>694,485</u> | <u>456,020</u> | <u>136,504</u> | <u>-</u> | <u>1,287,009</u> |
| 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> |
| Carrying value: | | | | | | |
| Balance as of December 31, 2020 | <u>\$ 230,790</u> | <u>467,900</u> | <u>119,914</u> | <u>23,726</u> | <u>30,451</u> | <u>872,781</u> |
| 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> |

As of December 31, 2020 and 2019, the Group had not provided any property, plant and equipment as collateral for its loans.

(i) Right-of-use assets

The Group leases many assets including land, 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, 2020 | \$ 186,140 | 40,667 | 375 | 8,847 | 236,029 |
| Purchases | | 743 | 4,892 | 3,977 | 10,560 |
| Derecognized | - | (9,574) | (375) | (645) | (10,594) |
| Effect of changes in foreign exchange rates | - | 218 | - | - | 218 |
| Balance as of December 31, 2020 | <u>\$ 186,883</u> | <u>36,203</u> | <u>948</u> | <u>12,179</u> | <u>236,213</u> |

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Office equipment</u> | <u>Total</u> |
|---|--------------------------|----------------------|--|-----------------------------|-----------------------|
| Balance as of January 1, 2019 | \$ - | - | - | - | - |
| Effects of retrospective application | <u>186,140</u> | <u>22,186</u> | <u>-</u> | <u>-</u> | <u>208,326</u> |
| 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 | <u>-</u> | <u>(161)</u> | <u>-</u> | <u>-</u> | <u>(161)</u> |
| Balance as of December 31, 2019 | <u><u>\$ 186,140</u></u> | <u><u>40,667</u></u> | <u><u>375</u></u> | <u><u>8,847</u></u> | <u><u>236,029</u></u> |
| Accumulated depreciation: | | | | | |
| Balance at January 1, 2020 | \$ 5,570 | 8,024 | 237 | 1,715 | 15,546 |
| Depreciation for the year | 5,595 | 15,461 | 270 | 3,880 | 25,206 |
| Derecognized | - | (9,574) | (375) | (645) | (10,594) |
| Effect of changes in foreign exchange rates | <u>-</u> | <u>134</u> | <u>-</u> | <u>-</u> | <u>134</u> |
| Balance as of December 31, 2020 | <u><u>\$ 11,165</u></u> | <u><u>14,045</u></u> | <u><u>132</u></u> | <u><u>4,950</u></u> | <u><u>30,292</u></u> |
| Balance as of January 1, 2019 | \$ - | - | - | - | - |
| Effects of retrospective application | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 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 | <u>-</u> | <u>(150)</u> | <u>-</u> | <u>-</u> | <u>(150)</u> |
| Balance as of December 31, 2019 | <u><u>\$ 5,570</u></u> | <u><u>8,024</u></u> | <u><u>237</u></u> | <u><u>1,715</u></u> | <u><u>15,546</u></u> |
| Book value: | | | | | |
| Balance as of December 31, 2020 | <u><u>\$ 175,718</u></u> | <u><u>22,158</u></u> | <u><u>816</u></u> | <u><u>7,229</u></u> | <u><u>205,921</u></u> |
| Balance as of December 31, 2019 | <u><u>\$ 180,570</u></u> | <u><u>32,643</u></u> | <u><u>138</u></u> | <u><u>7,132</u></u> | <u><u>220,483</u></u> |

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) 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, 2020 | \$ 176,838 | 153,837 | 161,364 | 492,039 |
| Additions | - | 80,099 | 154,623 | 234,722 |
| Acquisitions | - | - | 3,141 | 3,141 |
| Derecognized | - | (3,167) | (85,894) | (89,061) |
| Reclassifications | - | - | (30) | (30) |
| Balance as of December 31, 2020 | <u>\$ 176,838</u> | <u>230,769</u> | <u>233,204</u> | <u>640,811</u> |
| 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> |
| Accumulated amortization: | | | | |
| Balance as of January 1, 2020 | \$ - | 58,927 | 128,893 | 187,820 |
| Additions | - | 36,349 | 56,176 | 92,525 |
| Reclassifications | - | (3,167) | (85,894) | (89,061) |
| Derecognized | - | (95) | 65 | (30) |
| Balance as of December 31, 2020 | <u>\$ -</u> | <u>92,014</u> | <u>99,240</u> | <u>191,254</u> |
| 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 | <u>\$ -</u> | <u>58,927</u> | <u>128,893</u> | <u>187,820</u> |
| Book value: | | | | |
| Balance as of December 31, 2020 | <u>\$ 176,838</u> | <u>138,755</u> | <u>133,964</u> | <u>449,557</u> |
| Balance as of December 31, 2019 | <u>\$ 176,838</u> | <u>94,910</u> | <u>32,471</u> | <u>304,219</u> |

- (i) For the years ended December 31, 2020 and 2019, the Group did not recognize any impairment loss. Amortization expenses were recorded as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------|------------------|---------------|
| Operating cost | <u>\$ 4,061</u> | <u>4,079</u> |
| Operating expense | <u>\$ 88,464</u> | <u>42,944</u> |

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(ii) 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 Group's goodwill, which should not be higher than the Group's operating divisions.

The carrying amounts of goodwill were as follow:

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| 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 |

- 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, 2020 | December 31, 2019 |
|-------------------------|------------------------------|------------------------------|
| Revenue growth rate | 4.4 % | 5.0 % |
| After-tax discount rate | 9.30 % | 9.88 % |

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, 2020 and 2019.

(k) Short-term borrowings

The short-term borrowings were summarized as follows:

| | December 31, 2020 | December 31, 2019 |
|--------------------------------|------------------------------|------------------------------|
| Unsecured bank loans | \$ 40,000 | 241,000 |
| Range of interest rate | 1.80%~1.990% | 1.69%~2.60% |
| Unused short-term credit lines | \$ 345,000 | 497,000 |

Refer to note 6(s) for the interest rate risk and fair value sensitivity analysis of the financial assets and liabilities of the Group.

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(l) Lease liabilities

The lease liabilities were as follows:

| | December 31, 2020 | December 31, 2019 |
|-------------|----------------------|----------------------|
| Current | \$ <u>21,858</u> | <u>21,279</u> |
| Non-current | \$ <u>187,361</u> | <u>200,563</u> |

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

The amounts recognized in profit or loss were as follows:

| | 2020 | 2019 |
|--|------------------|--------------|
| Interest on lease liabilities | \$ <u>4,199</u> | <u>3,782</u> |
| Expenses relating to short-term leases | \$ <u>13,653</u> | <u>3,242</u> |
| Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | \$ <u>1,367</u> | <u>34</u> |
| Covid-19-related rent concessions | \$ <u>(590)</u> | <u>-</u> |

The amounts recognized in the statement of cash flows for the Group were as follows:

| | 2020 | 2019 |
|-------------------------------|------------------|---------------|
| Total cash outflow for leases | \$ <u>45,498</u> | <u>34,674</u> |

(i) Real estate leases

As of December 31, 2020 and 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 for 1-3 years. 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.

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(m) Employee benefits

(i) Defined benefit plans

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

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Present value of defined benefit obligation | \$ 479,934 | 453,762 |
| Fair value of plan assets | <u>(90,478)</u> | <u>(81,389)</u> |
| Net defined benefit liabilities | <u>\$ 389,456</u> | <u>372,373</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.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$90,478 thousand as of December 31, 2020. 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:

| | 2020 | 2019 |
|--|--------------------------|-----------------------|
| Defined benefit obligations at January 1 | \$ 453,762 | 457,216 |
| Current service cost and interest cost | 6,653 | 7,953 |
| Net remeasurements of defined benefit liability (asset) | | |
| — Actuarial gains and losses arising from financial assumptions | 22,224 | 15,123 |
| — Actuarial gains and losses arising from experience adjustments | (2,705) | (17,294) |
| Past service credit | - | (1,092) |
| Benefits paid | <u>-</u> | <u>(8,144)</u> |
| Defined benefit obligations at December 31 | <u>\$ 479,934</u> | <u>453,762</u> |

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3) Movements of plan assets

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

| | <u>2020</u> | <u>2019</u> |
|---|-------------------------|----------------------|
| Fair value of plan assets, January 1 | \$ 81,389 | 78,397 |
| Interests revenue | 920 | 1,093 |
| Net remeasurements of defined benefit liability (asset) | | |
| — Return on plan assets (interest income for the year not included) | 2,369 | 2,797 |
| Contributions | 5,800 | 5,843 |
| Benefits paid | - | (6,741) |
| Fair value of plan assets at December 31 | <u><u>\$ 90,478</u></u> | <u><u>81,389</u></u> |

4) Expenses recognized in profit or loss

The Group's expenses recognized in profit or loss for the years ended December 31, 2020 and 2019, were as follows:

| | <u>2020</u> | <u>2019</u> |
|---|------------------------|---------------------|
| Current service costs | \$ 1,584 | 1,693 |
| Net interest of net liabilities for defined benefit obligations | 4,149 | 5,167 |
| Curtailment or settlement gains | - | (1,092) |
| | <u><u>\$ 5,733</u></u> | <u><u>5,768</u></u> |

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|------------------------|---------------------|
| Operating cost | \$ 456 | 570 |
| Selling expenses | 517 | 358 |
| Administration expenses | 481 | 146 |
| Research and development expenses | 4,279 | 4,694 |
| | <u><u>\$ 5,733</u></u> | <u><u>5,768</u></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, 2020 and 2019, were as follows:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|------------------------|-----------------------|
| Accumulated amount at January 1 | \$ (8,785) | (3,817) |
| Recognized during the period | 17,150 | (4,968) |
| Accumulated amount at December 31 | <u><u>\$ 8,365</u></u> | <u><u>(8,785)</u></u> |

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6) Actuarial assumptions

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

| | December 31, 2020 | December 31, 2019 |
|-----------------------------|------------------------------|------------------------------|
| Discount rate | 0.625%~0.750% | 1.000%~ 1.125% |
| 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 \$5,677 thousand.

As of December 31, 2020 and 2019, the weighted-average lifetime of the defined benefits plans were 15.55 years and 16.39 years.

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, 2020 | | |
| Discount rate | \$ (14,917) | 15,544 |
| Future salary increasing rate | 14,572 | (14,085) |
| December 31, 2019 | | |
| Discount rate | (14,977) | 15,616 |
| Future salary increasing rate | 14,714 | (14,188) |

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 2020 and 2019.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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(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, 2020 and 2019 were as follows:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|------------------|---------------|
| Operating cost | \$ 8,557 | 7,389 |
| Selling expenses | 5,821 | 8,263 |
| Administration expenses | 5,505 | 5,053 |
| Research and development expenses | 43,411 | 44,202 |
| | <u>\$ 63,294</u> | <u>64,907</u> |

(n) 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 conforms to the prescribed criteria under the "Statute for Upgrading Industries" as follows:

| <u>Group</u> | <u>Year</u> | <u>Tax exemption products</u> | <u>Tax exemption period</u> |
|--------------------------|-------------|--|---|
| 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 | 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.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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The Group's income tax expenses were as follow:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------|--------------------------|-----------------------|
| Current income tax expense | \$ 702,866 | 347,110 |
| Deferred income tax expense | <u>(2,212)</u> | <u>(2,192)</u> |
| Income tax expense | <u><u>\$ 700,654</u></u> | <u><u>344,918</u></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, 2020 and 2019 is summarized as follows:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------------|-------------------------|
| Income before income tax | <u><u>\$ 3,893,692</u></u> | <u><u>2,809,660</u></u> |
| Income tax computed at statutory tax rate | \$ 778,738 | 561,932 |
| Effect of tax rates in foreign jurisdiction | (9,755) | (3,702) |
| Investment tax credit | (34,149) | (47,597) |
| Tax-exempt income | (77,792) | - |
| Investment income from domestic securities | 61,377 | (97,307) |
| Suspension of tax-exempt gain on disposal of domestic securities | (9,443) | (729) |
| Effect of tax-exempt gain on investment deducted from loss carry forward | 11,790 | 8,150 |
| Tax-exempt gain on dividend revenue of domestic securities | (8,997) | (5,337) |
| Change in unrecognized temporary differences | (75,804) | (89,345) |
| Prior year's income tax adjustment | 3,950 | (3,367) |
| The amount of expired loss carryforward | 26,246 | 31,610 |
| Surtax on undistributed profit | 13,683 | - |
| Others | <u>20,810</u> | <u>(9,390)</u> |
| Total | <u><u>\$ 700,654</u></u> | <u><u>344,918</u></u> |

(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:

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Realized valuation losses on long-term investment | \$ 384,184 | 469,576 |
| Tax-deductible loss | 408,638 | 401,176 |
| Unfunded pension expense | 94,646 | 96,485 |
| Provision for decline in value of inventories | 34,915 | 32,009 |
| Others | 5,848 | 4,789 |
| | <u>\$ 928,231</u> | <u>1,004,035</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 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, 2020 the net losses that have not been recognized as deferred tax assets and the expiration years were as follows:

a) Domestic consolidated entities

| Year of loss | Year of expiry | Unused amount |
|---------------------|-----------------------|----------------------------|
| 2011 | 2021 | \$ 143,053 |
| 2012 | 2022 | 219,494 |
| 2013 | 2023 | 264,926 |
| 2014 | 2024 | 280,179 |
| 2015 | 2025 | 255,813 |
| 2016 | 2026 | 272,429 |
| 2017 | 2027 | 273,381 |
| 2018 | 2028 | 188,002 |
| 2019 | 2029 | 135,247 |
| 2020 | 2030 | 186,623 |
| | | <u>\$ 2,219,147</u> |

b) Foreign consolidated entities

| | Applicable years | Unused amount |
|------------------|-------------------------|-------------------------|
| Elan Information | 2020-2031 | <u>\$ 11,800</u> |

2) Recognized deferred income tax assets and liabilities

Movements of recognized deferred income tax assets and liabilities for the years ended December 31, 2020 and 2019 were as follows:

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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Deferred Tax Liabilities:

| | Fair Value Gains |
|------------------------------|-----------------------------|
| Balance at January 1, 2020 | \$ (2,097) |
| Recognized in profit or loss | <u>853</u> |
| Balance at December 31, 2020 | <u>\$ (1,244)</u> |
| Balance at January 1, 2019 | \$ (2,248) |
| Recognized in profit or loss | <u>151</u> |
| Balance at December 31, 2019 | <u>\$ (2,097)</u> |

Deferred Tax Assets:

| | Decline in Value of Inventories | Others | Total |
|------------------------------|--|---------------------|----------------------|
| Balance at January 1, 2020 | \$ 26,705 | 5,157 | 31,862 |
| Recognized in profit or loss | <u>4,338</u> | <u>(2,979)</u> | <u>1,359</u> |
| Balance at December 31, 2020 | <u>\$ 31,043</u> | <u>2,178</u> | <u>33,221</u> |
| Balance at January 1, 2019 | \$ 24,113 | 5,708 | 29,821 |
| Recognized in profit or loss | <u>2,592</u> | <u>(551)</u> | <u>2,041</u> |
| Balance at December 31, 2019 | <u>\$ 26,705</u> | <u>5,157</u> | <u>31,862</u> |

(iv) The tax authorities have examined the Company's income tax returns as of the year 2018.

(o) Capital and other equity

(i) Ordinary share

As of December 31, 2020 and 2019, the authorized capital of the Company amounted to \$4,800,000 thousand, divided into 303,880 thousand ordinary shares, with a par value of \$10 per share. The issued shares were composed of common stocks only and have been fully paid up.

(ii) Capital surplus

The balances of capital surplus were as follows:

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Additional paid-in capital | \$ 231,051 | 231,051 |
| Treasury share transactions | 225,742 | 144,894 |
| Difference arising from subsidiary's share price and its carrying value | <u>62,845</u> | <u>-</u> |
| | <u>\$ 519,638</u> | <u>375,945</u> |

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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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 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

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 May 27, 2020 and June 10, 2019, the shareholder's meetings resolved to distribute the 2019 and 2018 earnings via cash dividend. The Company declared a cash dividend of \$6.50 and \$4.65 per share, amounting to \$1,975,223 thousand and \$1,413,044 thousand, respectively, for the year 2019 and 2018.

There was no difference between the actual distribution and estimation in the financial statements of 2019 and 2018.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Treasury stock

| | December 31, 2020 | | December 31, 2019 | |
|---|------------------------------|------------------|------------------------------|----------------|
| | Shares (in thousands) | Amounts | Shares (in thousands) | Amounts |
| The Company's shares held by subsidiaries | 12,438 | \$ 28,975 | 12,438 | 28,975 |

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, 2020 and 2019, the information on the Company's stock held by Elan Investment Corp. was as follows:

| | For the years ended December 31 | | | | | |
|------------------------------------|--|-------------------------|---------------------------|------------------------------|-------------------------|---------------------------|
| | 2020 | | | 2019 | | |
| | Shares (in thousands) | Acquisition cost | Total market value | Shares (in thousands) | Acquisition cost | Total market value |
| Opening balance | 12,438 | \$ 28,975 | 1,134,364 | 12,438 | 33,328 | 935,353 |
| Effects of valuation change | - | - | 526,136 | - | - | 199,011 |
| Cash dividend from capital surplus | - | - | - | - | (4,353) | - |
| Ending balance | 12,438 | \$ 28,975 | 1,660,500 | 12,438 | 28,975 | 1,134,364 |

The Company transferred cash dividend revenue received by Elan Investment Corp. amounting to \$80,848 thousand and \$57,838 thousand to capital surplus-treasury stock in 2020 and 2019, respectively.

(v) Other equity

The movements of other equity were as follows:

| | For the year ended December 31, 2020 | | |
|---|--|--|--------------|
| | 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 | \$ (5,537) | 135,447 | 129,910 |
| Foreign exchange differences: | | | |
| The Group | (1,078) | - | (1,078) |
| Associates | 18 | - | 18 |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | | | |
| The Group | - | (15,191) | (15,191) |
| The Group — disposal | - | (110,319) | (110,319) |
| Balance as of December 31 | \$ (6,597) | 9,937 | 3,340 |

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | For the year 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 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> |

(p) Earnings per share

Basic and diluted earnings per share for the and years ended December 31, 2020 and 2019 were calculated as follows:

(i) Basic earnings per share:

| | 2020 | 2019 |
|--|---------------------|------------------|
| Net income | <u>\$ 3,245,811</u> | <u>2,496,744</u> |
| Weighted-average number of shares outstanding (thousands) | <u>291,442</u> | <u>291,442</u> |
| Earnings per share | <u>\$ 11.14</u> | <u>8.57</u> |

(ii) Diluted earnings per share:

| | 2020 | 2019 |
|---|---------------------|------------------|
| Net income (used to calculate diluted earnings per share) | <u>\$ 3,245,811</u> | <u>2,496,744</u> |
| Weighted-average number of shares outstanding (thousands) | 291,442 | 291,442 |
| Effect of dilutive potential common stock (thousands) | | |
| — employee emoluments | <u>4,478</u> | <u>4,366</u> |
| Weighted-average number of shares outstanding (thousands) used to calculate diluted earnings per share | <u>295,920</u> | <u>295,808</u> |
| Diluted earnings per share | <u>\$ 10.97</u> | <u>8.44</u> |

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

| | 2020 | 2019 |
|----------------|----------------------|------------------|
| Taiwan | \$ 973,713 | 987,990 |
| Mainland China | 2,512,482 | 2,020,647 |
| Hong Kong | 11,380,557 | 6,424,206 |
| America | 23,337 | 16,222 |
| Europe | 5,414 | 6,173 |
| Other | 204,187 | 32,739 |
| | \$ 15,099,690 | 9,487,977 |

For details on revenue for the year ended December 31, 2020 and 2019, please refer to note 14.

(ii) Contract balances

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

(r) Non-operating income and expenses

(i) Interest income

The details of interest income were as follows:

| | 2020 | 2019 |
|------------------------------------|------------------|---------------|
| Interest income from bank deposits | \$ 31,480 | 41,410 |

(ii) Other income

| | 2020 | 2019 |
|------------------|------------------|---------------|
| Rental income | \$ 262 | 1,951 |
| Dividend income | 44,985 | 25,295 |
| Government grant | 14,284 | 29,400 |
| Others | 13,121 | 23,298 |
| Total | \$ 72,652 | 79,944 |

(iii) Other gains and losses

| | 2020 | 2019 |
|--|---------------------|----------------|
| Foreign exchange losses | \$ (134,164) | (26,734) |
| Gains (losses) on financial asset at fair value through profit or loss | (308,507) | 601,235 |
| Loss on disposal of property, plant and equipment | (3,030) | (678) |
| Gains on disposal of investment | 13,754 | - |
| Miscellaneous disbursements | (13,086) | (3,169) |
| Others | - | 11 |
| Total | \$ (445,033) | 570,665 |

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Compensation to employees, directors and supervisors

According to the Company's Articles of Incorporation, should the Company net a profit for the year, it shall allocate no less than 10% of the profit as employees' compensation and not more than 2% of the profit as compensation to employees, directors and supervisors. Should the Company have accumulated losses, it shall first allocate its earnings to offset these losses.

For the years ended December 31, 2020 and 2019, the amounts of employees' bonuses were estimated at \$467,000 thousand and \$339,000 thousand, respectively. The amounts of compensation to directors and supervisors were estimated at \$60,000 thousand and \$43,500 thousand, respectively. The estimation basis shall be calculated as the amounts of net income before tax deducted by the bonuses of employees, directors and supervisors, multiplied by the distribution percentage of employees bonuses, compensation to directors and supervisors based on the Corporation's Articles of Incorporation. These bonuses and compensation were expensed under operating costs or expenses for 2020 and 2019. However, there were no differences between the distribution amounts of bonuses and compensation decided by the Board mentioned above and the estimated amounts of the Company's Consolidated Financial Statements for 2020 and 2019.

(t) 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.

Furthermore, 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, 2020 and 2019, 90% and 74%, respectively, of accounts receivable were due from the ten largest customers. Thus, credit risk was significantly concentrated.

3) Receivables and debt securities

For credit risk exposure in respect of notes and accounts receivable, please refer to note 6(c).

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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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) of the consolidated financial statements for the year ended December 31, 2019. There was no loss allowance provision for the years ended December 31, 2020 and 2019, 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.

| | <u>Carrying amount</u> | <u>Con- tractual cash flows</u> | <u>Within 6 months</u> | <u>6-12 months</u> | <u>1-2 months</u> | <u>2-5 years</u> | <u>More than 5 years</u> |
|--------------------------------------|----------------------------|---|----------------------------|------------------------|-----------------------|----------------------|------------------------------|
| December 31, 2020 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Short-term borrowings | \$ 40,000 | 40,291 | 40,291 | - | - | - | - |
| Notes and accounts payable | 1,826,667 | 1,826,667 | 1,826,667 | - | - | - | - |
| Other payables | 878,762 | 878,762 | 878,762 | - | - | - | - |
| Lease liabilities | 209,219 | 260,614 | 12,690 | 12,800 | 19,981 | 22,645 | 192,498 |
| | <u>\$ 2,954,648</u> | <u>3,006,334</u> | <u>2,758,410</u> | <u>12,800</u> | <u>19,981</u> | <u>22,645</u> | <u>192,498</u> |
| December 31, 2019 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Short-term loans | \$ 241,000 | 243,878 | 106,924 | 136,954 | - | - | - |
| Notes and accounts payable | 1,169,761 | 1,169,761 | 1,169,761 | - | - | - | - |
| Other payables | 537,940 | 537,940 | 537,940 | - | - | - | - |
| Lease liabilities | 221,842 | 275,195 | 13,649 | 11,707 | 20,956 | 31,618 | 197,265 |
| | <u>\$ 2,170,543</u> | <u>2,226,774</u> | <u>1,828,274</u> | <u>148,661</u> | <u>20,956</u> | <u>31,618</u> | <u>197,265</u> |

The Group is not expecting the cash flows included in the maturity analysis to 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:

| | <u>December 31, 2020</u> | | | <u>December 31, 2019</u> | | |
|-------------------------------|-----------------------------|--------------------------|------------|-----------------------------|--------------------------|------------|
| | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>TWD</u> | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>TWD</u> |
| <u>Financial assets:</u> | | | | | | |
| <u>Monetary item</u> | | | | | | |
| US dollar | \$ 165,617 | 28.10 | 4,653,824 | 89,403 | 30.04 | 2,685,660 |
| <u>Financial liabilities:</u> | | | | | | |
| <u>Monetary item</u> | | | | | | |
| US dollar | 82,036 | 28.10 | 2,305,212 | 48,543 | 30.04 | 1,458,234 |

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Notes to the Consolidated Financial Statements

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, 2020 and 2019 would have increased (decreased) the equity by \$93,944 thousand and \$49,097 thousand, respectively, for the years ended December 31, 2020 and 2019, assuming all other factors remained constant. The analysis is performed on the same basis in 2020 and 2019.

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 \$134,164 thousand and \$26,734 thousand for the years ended December 31, 2020 and 2019, respectively.

(iv) Interest rate analysis

The Group's exposure to interest rate risk of financial assets and liabilities was disclosed under in the "Liquidity Risk" section 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 \$77 thousand and \$1,646 thousand for the years ended December 31, 2020 and 2019, respectively, with all other variable factors remaining unchanged. This was mainly due to the Group's time deposits and borrowings at variable rates.

(v) Other market price riskn

For the years ended December 31, 2020 and 2019, the sensitivity analysis of the changes in the securities price at the reporting date were performed on the same basis for the profit and loss as illustrated below:

| | 2020 | | 2019 | |
|--|--------------------------------------|------------|--------------------------------------|------------|
| | Other comprehensive income after tax | Net income | Other comprehensive income after tax | Net income |
| Prices of securities at the reporting date | | | | |
| Increase 5% | \$ 12,174 | 38,760 | 7,673 | 53,486 |
| Decrease 5% | \$ (12,174) | (38,760) | (7,673) | (53,486) |

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(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:

| | December 31, 2020 | | | | |
|--|--------------------------|------------------|----------------|----------------|------------------|
| | Fair Value | | | | total |
| | Book value | Level 1 | Level 2 | Level 3 | |
| Financial assets measured at fair value through profit or loss (current and non-current) | \$ 1,993,657 | 1,235,860 | 127,790 | 630,007 | 1,993,657 |
| Financial assets measured at fair value through other comprehensive income | | | | | |
| Stocks | 304,352 | 47,790 | 242,830 | 13,732 | 304,352 |
| Accounts receivable | 772,934 | - | - | - | - |
| Subtotal | 1,077,286 | 47,790 | 242,830 | 13,732 | 304,352 |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | 2,030,341 | - | - | - | - |
| Notes and accounts receivables | 1,424,536 | - | - | - | - |
| Other receivables | 1,474,775 | - | - | - | - |
| Financial assets measured at amortized cost | 2,742,850 | - | - | - | - |
| Guarantee deposits | 24,661 | - | - | - | - |
| Subtotal | 7,697,163 | - | - | - | - |
| Total | <u>\$ 10,768,106</u> | <u>1,283,650</u> | <u>370,620</u> | <u>643,739</u> | <u>2,298,009</u> |
| Financial liabilities measured at amortized cost | | | | | |
| Bank loans | \$ 40,000 | - | - | - | - |
| Notes and accounts payables | 1,826,667 | - | - | - | - |
| Other payables | 878,762 | - | - | - | - |
| Lease liabilities (current and non-current) | 209,219 | - | - | - | - |
| Guarantee deposits | 39,427 | - | - | - | - |
| Total | <u>\$ 2,994,075</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

(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 at FVTPL (current and non-current) | \$ 2,139,064 | 1,284,969 | 214,669 | 639,426 | 2,139,064 |
| Financial assets at FVOCI | | | | | |
| 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 trade receivables | 734,631 | - | - | - | - |
| Other receivables | 835,141 | - | - | - | - |
| Financial assets measured at amortized cost | 2,289,450 | - | - | - | - |
| Guarantee deposits | 10,770 | - | - | - | - |
| Subtotal | 5,372,113 | - | - | - | - |
| Total | <u>\$ 8,192,044</u> | <u>1,464,878</u> | <u>214,669</u> | <u>651,350</u> | <u>2,330,897</u> |
| Financial assets measured at amortized cost | | | | | |
| Bank loans | 241,000 | - | - | - | - |
| Note and trade payable | 1,169,761 | - | - | - | - |
| Other payables | 1,347,028 | - | - | - | - |
| Lease liabilities (current and non-current) | 221,842 | - | - | - | - |
| Guarantee deposits | 10,766 | - | - | - | - |
| Total | <u>\$ 2,990,397</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.)

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.

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2020 and 2019.

4) Reconciliation of Level 3 fair values

| | Non derivative mandatorily measured at fair value through profit or loss (held-for-trading financial assets) | Financial assets at fair value through other comprehensive income | Total |
|---|--|---|----------------|
| Opening balance, January 1, 2020 | \$ 639,426 | 11,924 | 651,350 |
| Total gains and losses recognized: | | | |
| In profit or loss | 9,284 | - | 9,284 |
| In other comprehensive income | - | 2,263 | 2,263 |
| Purchased | 29,755 | - | 29,755 |
| Issued | (4,002) | (455) | (4,457) |
| Capital reduction for redistribution to shareholders | (44,456) | - | (44,456) |
| Ending Balance, December 31, 2020 | <u>\$ 630,007</u> | <u>13,732</u> | <u>643,739</u> |
| Opening balance, January 1, 2019 | \$ 808,068 | 11,033 | 819,101 |
| Total gains and losses recognized: | | | |
| In profit or loss | 572,005 | - | 572,005 |
| In other comprehensive income | - | 891 | 891 |
| Purchased | 31,887 | - | 31,887 |
| Transfers out of Level 3 | (721,196) | - | (721,196) |
| Capital reduction for redistribution to shareholders | (51,338) | - | (51,338) |
| Ending Balance, December 31, 2019 | <u>\$ 639,426</u> | <u>11,924</u> | <u>651,350</u> |

For the years ended December 31, 2020 and 2019, 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>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| Total gains and losses recognized: | | |
| In profit or loss, and presented in “other gains and losses “unrealized gains and losses from financial assets at fair value through other comprehensive income” | \$ 9,284 | 572,005 |
| In other comprehensive income, and presented in “unrealized gains and losses from financial assets at fair value through other comprehensive income” | 2,263 | 891 |

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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, 2020 and December 31, 2019: 1.37% to 2.79% and 1.22% to 2.35%) Non-liquid discount (December 31, 2020: 0%~10%, and December 31, 2019: 7% to 10%) Price to earnings ratio (December 31, 2020 and December 31, 2019: 0.64% to 2.52% and 0.75% to 2.63%) Price to book assets ratio (December 31, 2020 and December 31, 2019: 0.66% to 1.28% and 0.53% to 1.32%) | <ul style="list-style-type: none"> The estimated fair value would increase (decrease) if: the price to book ratio were higher (lower); the non-liquid discount were lower (higher). liquidity discount for weighted market were lower (higher) the long-term revenue growth rate and long-term pre-tax operating were higher (lower) |
| 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, 2020 | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Equity investments without an active market | Price to book ratio | 10% | 2,731 | (2,731) |
| | Non-liquid discount | 10% | 230 | (230) |

(Continued)

ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | Input | Increase or decrease | Profit or loss | |
|---|---------------------|----------------------|----------------|-------------|
| | | | 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) |

(u) Financial risk management

(i) Overview

The Group has exposure 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.

(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.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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 optimizing 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.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(v) 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.

The Group's debt to equity ratios at the end of the reporting period as at December 31, 2020 and 2019 were as follows:

| | December 31, 2020 | December 31, 2019 |
|---------------------------------|------------------------------|------------------------------|
| Total liabilities | \$ 5,179,134 | 3,643,740 |
| Less: cash and cash equivalents | <u>(2,030,341)</u> | <u>(1,502,121)</u> |
| Net debt | <u>\$ 3,148,793</u> | <u>2,141,619</u> |
| Total equity | <u>\$ 9,050,622</u> | <u>7,668,931</u> |
| Debt-to-equity ratio | <u>34.79 %</u> | <u>27.93 %</u> |

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

| | January 1, 2020 | Cash flows | Non-cash changes | | | December 31, 2020 |
|--|--------------------|------------------|---------------------------------|-----------------------|---------------|----------------------|
| | | | Foreign exchange movement | Fair value changes | Others | |
| Short-term borrowings | \$ 241,000 | (201,000) | - | - | - | 40,000 |
| Lease liabilities | 221,842 | (26,869) | (91) | - | 14,337 | 209,219 |
| Total liabilities from financial activities | <u>\$ 462,842</u> | <u>(227,869)</u> | <u>(91)</u> | <u>-</u> | <u>14,337</u> | <u>249,219</u> |

| | January 1, 2019 | Cash flows | Capital reduction | 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 | <u>\$ 451,326</u> | <u>(29,616)</u> | <u>-</u> | <u>(389)</u> | <u>-</u> | <u>41,521</u> | <u>462,842</u> |

(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 Group</u> |
|--|---|
| Eminent Electronic Technology Corp. Ltd. | Eminent was originally an associate of the Group. However, the Company gained control over Eminent on February 19, 2020; hence it became one of the Company's subsidiaries; thus, it has been included in the Company's consolidated financial statements since then. |

(b) Significant transactions with related parties

(i) Raw materials purchasing services and other operating income

| | <u>2020</u> | <u>2019</u> |
|--------------------|-----------------|---------------|
| Associates-Eminent | <u>\$ 1,821</u> | <u>10,381</u> |

(ii) Rental income

| | <u>2020</u> | <u>2019</u> |
|--------------------|---------------|--------------|
| Associates-Eminent | <u>\$ 262</u> | <u>1,906</u> |

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Purchase

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

| | <u>2020</u> | <u>2019</u> |
|--------------------|-------------|-------------|
| Associates-Eminent | \$ - | <u>26</u> |

The price of purchases from the related parties mentioned above was not significantly different than the price with other third-party suppliers. The payment term was days by monthly closed, which was not significantly different than the payment terms with other third-party suppliers, either.

(iv) Receivable from related parties

The receivables from related parties were as follows:

| <u>Accounts</u> | <u>Types of related parties</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|----------------------|---------------------------------|--------------------------|--------------------------|
| Accounts receivables | Associates-Eminent | \$ - | 626 |
| Other receivables | Associates-Eminent | - | 12,812 |
| | | <u>\$ -</u> | <u>13,438</u> |

(v) 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

| | <u>2020</u> | <u>2019</u> |
|------------------------------|-------------------|---------------|
| Short-term employee benefits | \$ 111,022 | 85,896 |
| Post-employment benefits | 576 | 683 |
| | <u>\$ 111,598</u> | <u>86,579</u> |

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

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged assets: None.

| <u>Asset name</u> | <u>Pledge asset</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--|------------------------------|------------------------------|
| Financial assets at amortized cost (Certificate Deposit) | Guarantee of the creditors of the purchase transactions | \$ 2,400 | - |
| Financial assets at amortized cost (Certificate Deposit) | Use land guarantee for Hsinchu Science Park Bureau | 7,200 | 7,200 |
| | | <u>\$ 9,600</u> | <u>7,200</u> |

(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, 2020 and 2019, the financial institutions had issued performance guarantees amounting to \$3,000 thousand and \$4,000 thousand, respectively.
- (b) As of December 31, 2020 and 2019, the refundable notes payable for short-term loans amounted to \$385,000 thousand and \$713,000 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) As of December 31, 2020 and 2019, the refundable notes payable for lease amounted to \$600 thousand and 0 thousand, respectively.
- (e) 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. 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.

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To implement the project “Elan Electronic Smart Supply Chain AI Application” under the guidance from the Ministry of Economics Affairs, the Company entered into a program contract with the Taiwan Small and Medium Enterprise Counseling Foundation in order to receive a grant amounting to \$9,000 thousand. The project runs between April 1, 2020 and March 31, 2022. The Company recognizes income based on the progress of the projects. On December 31, 2020 the subsidy received but not recognized amounting to \$4,000 thousand, was classified as other current liabilities. As of December 31, 2020, the Company had entrusted financial institutions to guarantee that the Company would fulfill its obligations specified in the project contract. The financial institutions have issued performance guarantee amounting \$4,000 thousand.

(f) Royalty fee

The Company signed a software authorization contract with a software company. The contract can be terminated 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.

(g) Litigation and actions

As of December 31, 2020, the pending litigation of the Group was as follows:

- (i) On September 8, 2020, Bruckewell Technology Co., Ltd. received Taiwan HsinChu District Court's issuance of the payment order applied by Sooner Power Semiconductor Co., Ltd.. Sooner Power Semiconductor Co., Ltd. requested Bruckewell Technology Co., Ltd. to return the payment and claimed compensation amounting to \$32,687 thousand. The lawsuits were settled on December 9, 2020, and Semiconductor Co., Ltd. agreed to drop the lawsuits.
- (ii) On December 2, 2020, the Company filed an appeal with the Beijing Intellectual Property Court against Shenzhen Goodix Technology Co., Ltd. (hereinafter referred to as Goodix) and Beijing Xingyitongda Technology Co., Ltd. for an infringement of the Company's PRC Patent No.ZL03158451.9 The Company appealed to the court to prohibit the defendant from using, manufacturing and selling the product, and requested for damages compensation amounting to CNY 25 million. Since the Company is the plaintiff in this case, no significant influence on the Company is expected.

On December 23, 2020, the Company filed an appeal with Taiwan Intellectual Property Court against Goodix and Shouhon Technology Co., Ltd. for an infringement of the Company's ROC Patent #I556033. The Company appealed to the court to prohibit the defendant from using, manufacturing and selling the product. Since the Company is the plaintiff in this case, no significant influence on the Company is expected.

(10) Losses due to major disasters: None.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
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(11) Subsequent events:

- (a) On February 9, 2021, the Group sold 86.96% equity in RisingStar Technology Company Limited for \$20,147 thousand.
- (b) In order to improve the efficiency of the Company's R&D and operation, the Board of Directors approved the "Hsinchu County International AI Smart Park Industrial Zone" bid for the superficies rights thereof on November 12, 2020. The Company's investment plan "Hsinchu County International AI Smart Park Industrial Zone (1)-3", was approved by the Vendor Selection Committee of Hsinchu County Government on December 24, 2020, subsequent to which the superficies were set up based on the Handbook for Establishing Rights of Superficies for Hsinchu County International AI Smart Park Industrial Zone (1), duration of 20 years and royalties totaling \$316,000 thousand. If there is no major breach of contract at the end of the contract term, the contract can be renewed for another 20 years, and the leased will be calculated and adjusted based on the announced land price during the contract period.
- (c) The appropriation of earnings for 2020 was approved at the Board meeting on February 17, 2021. The cash dividend of \$9 per share, totaling \$2,734,924 thousand will be submitted to the shareholders' meeting to be held in June 2021 for approval.

(12) Others:

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

| | For the years ended December 31 | | | | | |
|----------------------------|---------------------------------|-------------------|-----------|----------------|-------------------|-----------|
| | 2020 | | | 2019 | | |
| | Operating cost | Operating expense | Total | Operating cost | Operating expense | Total |
| Employee expenses | | | | | | |
| Salaries and wages | \$ 329,490 | 1,771,474 | 2,100,964 | 266,549 | 1,510,018 | 1,776,567 |
| Labor and health insurance | 27,952 | 95,963 | 123,915 | 21,886 | 88,710 | 110,596 |
| Pension expenses | 9,013 | 60,014 | 69,027 | 7,959 | 62,716 | 70,675 |
| Remuneration of directors | - | 62,580 | 62,580 | - | 45,050 | 45,050 |
| Others | 23,251 | 47,996 | 71,247 | 16,966 | 42,038 | 59,004 |
| Depreciation expenses | 33,497 | 65,278 | 98,775 | 24,550 | 52,007 | 76,557 |
| Amortization expenses | 4,061 | 88,464 | 92,525 | 4,079 | 42,944 | 47,023 |

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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 year ended December 31, 2020:

- (i) Loans to other parties: None
- (ii) Guarantees and endorsements for other parties: None
- (iii) Securities held as of December 31, 2020 (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 | 244 | 4,310 | -% | 4,310 | - % | |
| Elan Microelectronics Corporation | Fubon China Money Market Fund-TWD | - | Current financial assets at fair value through profit or loss | 1,867 | 20,113 | -% | 20,113 | - % | |
| Elan Microelectronics Corporation | Fubon Chi-Hsiang Money Market Fund | - | Current financial assets at fair value through profit or loss | 2,540 | 40,141 | -% | 40,141 | - % | |
| Elan Microelectronics Corporation | PineBridge Taiwan Money Market Fund | - | Current financial assets at fair value through profit or loss | 2,209 | 30,403 | -% | 30,403 | - % | |
| Elan Microelectronics Corporation | Cathay Taiwan Money Market Fund | - | Current financial assets at fair value through profit or loss | 7,224 | 90,542 | -% | 90,542 | - % | |
| Elan Microelectronics Corporation | Nomura Global Short Duration Bond Fund-TWD | - | Current financial assets at fair value through profit or loss | 3,282 | 35,091 | -% | 35,091 | - % | |
| Elan Microelectronics Corporation | Nomura Taiwan Money Market Fund | - | Current financial assets at fair value through profit or loss | 1,887 | 31,031 | -% | 31,031 | - % | |
| Elan Microelectronics Corporation | KGI Victory Money Market Fund | - | Current financial assets at fair value through profit or loss | 6,855 | 80,008 | -% | 80,008 | - % | |
| Elan Microelectronics Corporation | Taishin 1699 Money Market Fund | - | Current financial assets at fair value through profit or loss | 2,900 | 39,573 | -% | 39,573 | - % | |
| Elan Microelectronics Corporation | Yuanta De-Li Money Market Fund | - | Current financial assets at fair value through profit or loss | 2,400 | 39,453 | -% | 39,453 | - % | |
| Elan Microelectronics Corporation | Diversified FX Trading Segregated Portfolio | - | Current financial assets at fair value through profit or loss | 190 | 17,692 | -% | 17,692 | - % | |
| Elan Microelectronics Corporation | Global Strategic FX Arbitrage Note | - | Current financial assets at fair value through profit or loss | 71 | 19,951 | -% | 19,951 | - % | |
| Elan Microelectronics Corporation | Multi-Manager FX Trading Note (M2) | - | Current financial assets at fair value through profit or loss | 44 | 12,403 | -% | 12,403 | - % | |

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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 | Global Strategic FX Arbitrage Note (USD)(SERIES II) | - | Current financial assets at fair value through profit or loss | 100 | 28,100 | -% | 28,100 | - % | |
| Elan Microelectronics Corporation | ThroughTek CO., LTD. | - | Non-current financial assets at fair value through other comprehensive income | 1,077 | 13,732 | 4.14% | 13,732 | 4.23 % | |
| Elan Microelectronics Corporation | Macroblock, Inc. | - | Non-current financial assets at fair value through other comprehensive income | 3,500 | 242,830 | 7.87% | 242,830 | 7.87 % | |
| 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 | 4,832 | 0.94% | 4,832 | 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 | 1,867 | 17.39% | 1,867 | 17.39 % | |
| Elan Microelectronics Corporation | TOP TAIWAN IV VENTURE CAPITAL CO., LTD. | - | Non-current financial assets at fair value through profit or loss | 490 | 2,002 | 7.00% | 2,002 | 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 | 1,554 | 8.13% | 1,554 | 8.13 % | |
| Elan Microelectronics Corporation | TOP TAIWAN VI VENTURE CAPITAL CO., LTD. | - | Non-current financial assets at fair value through profit or loss | 552 | 5,732 | 2.17% | 5,732 | 2.17 % | |
| Elan Microelectronics Corporation | TOP TAIWAN VII VENTURE CAPITAL CO., LTD. | - | Non-current financial assets at fair value through profit or loss | 2,265 | 27,582 | 6.12% | 27,582 | 6.12 % | |
| Elan Microelectronics Corporation | TOP TAIWAN VIII VENTURE CAPITAL CO., LTD. | - | Non-current financial assets at fair value through profit or loss | 2,708 | 24,501 | 4.17% | 24,501 | 4.17 % | |
| Elan Microelectronics Corporation | Midatouch Research Corporation | - | Non-current financial assets at fair value through profit or loss | 2,500 | 7,625 | 9.43% | 7,625 | 10.24 % | |
| Elan Microelectronics Corporation | TOP TAIWAN IX VENTURE CAPITAL CO., LTD. | - | Non-current financial assets at fair value through profit or loss | 5,000 | 72,829 | 6.25% | 72,829 | 6.25 % | |
| Elan Microelectronics Corporation | InnoBridge Venture Capital | - | Non-current financial assets at fair value through profit or loss | 800 | 3,227 | 11.35% | 3,227 | 11.35 % | |
| Elan Microelectronics Corporation | Startek Engineering Inc. | - | Non-current financial assets at fair value through profit or loss | 189 | - | 0.53% | - | 0.53 % | |

(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 | North Star Venture Capital | - | Non-current financial assets at fair value through profit or loss | 3,000 | 41,823 | 10.00% | 41,823 | 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 | 48,137 | 6.25% | 48,137 | 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 % | |
| Elan Microelectronics Corporation | Lyra Semiconductor Incorporated | - | Non-current financial assets at fair value through profit or loss | 1,440 | - | 5.87% | - | 5.87 % | |
| Elan Microelectronics Corporation | TOP TAIWAN XII VENTURE CAPITAL CO.,LTD. | - | Non-current financial assets at fair value through profit or loss | 25,000 | 279,834 | 18.52% | 279,834 | 18.52 % | |
| Elan Microelectronics Corporation | Chimei Motor Electronics CO., LTD. | - | Non-current financial assets at fair value through profit or loss | 950 | 5,139 | 4.13% | 5,139 | 5.00 % | |
| Elan Microelectronics Corporation | Waltop International Corporation | - | Non-current financial assets at fair value through profit or loss | 200 | 1,424 | 1.63% | 1,424 | 3.41 % | |
| Elan Microelectronics Corporation | Vertex Growth (SG) LP | - | Non-current financial assets at fair value through profit or loss | - | 59,167 | -% | 59,167 | - % | |
| Elan Investment Corp. | FSITC Money Market Fund | - | Current financial assets at fair value through profit or loss | 131 | 23,479 | -% | 23,479 | - % | |
| Elan Investment Corp. | FSITC US Top 100 Bond Fund Acc TWD | - | Current financial assets at fair value through profit or loss | 1,500 | 15,327 | -% | 15,327 | - % | |
| Elan Investment Corp. | FSITC Global Wealthy Nations Bond Fund Acc TWD | - | Current financial assets at fair value through profit or loss | 2,629 | 26,785 | -% | 26,785 | - % | |
| Elan Investment Corp. | FSITC Taiwan Money Market Fund | - | Current financial assets at fair value through profit or loss | 2,271 | 35,043 | -% | 35,043 | - % | |
| Elan Investment Corp. | FSITC Global Video Gaming & eSports Fund | - | Current financial assets at fair value through profit or loss | 500 | 5,320 | -% | 5,320 | - % | |
| Elan Investment Corp. | FSITC Global Health & Weight Loss Fund | - | Current financial assets at fair value through profit or loss | 500 | 5,360 | -% | 5,360 | - % | |
| Elan Investment Corp. | Nomura Global Financial Bond Fund-N Accumulate TWD | - | Current financial assets at fair value through profit or loss | 4,783 | 51,140 | -% | 51,140 | - % | |
| Elan Investment Corp. | Nomura Global Financial Bond Fund | - | Current financial assets at fair value through profit or loss | 3,589 | 40,055 | -% | 40,055 | - % | |
| Elan Investment Corp. | Taishin Global Multi-asset Fund of Funds-TWD-A | - | Current financial assets at fair value through profit or loss | 1,000 | 11,610 | -% | 11,610 | - % | |

(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. | Taishin Global Disruptive Innovation Fund | - | Current financial assets at fair value through profit or loss | 1,500 | 23,310 | -% | 23,310 | - % | |
| Elan Investment Corp. | Taishin 1699 Money Market Fund | - | Current financial assets at fair value through profit or loss | 5,556 | 75,821 | -% | 75,821 | - % | |
| Elan Investment Corp. | Taishin North American Income Trust Fund-A | - | Current financial assets at fair value through profit or loss | 1,943 | 44,818 | -% | 44,818 | - % | |
| Elan Investment Corp. | Taishin Ta-Chong Money Market Fund | - | Current financial assets at fair value through profit or loss | 2,097 | 30,032 | -% | 30,032 | - % | |
| Elan Investment Corp. | Taishin Short Duration Emerging High Yield Bond Fund | - | Current financial assets at fair value through profit or loss | 4,200 | 43,253 | -% | 43,253 | - % | |
| Elan Investment Corp. | Diversified FX Trading Segregated Portfolio | - | Current financial assets at fair value through profit or loss | 534 | 49,644 | -% | 49,644 | - % | |
| Elan Investment Corp. | Elan Microelectronics Corporation | Sbusidiary | Non-current financial assets at fair value through other comprehensive income | 12,438 | 1,660,500 | 4.09% | 1,660,500 | 4.09 % | |
| Elan Investment Corp. | Rafael Microelectronics, Inc. | - | Non-current financial assets at fair value through other comprehensive income | 354 | 47,790 | 1.38% | 47,790 | 1.59 % | |
| Elan Investment Corp. | Panther Technology CO., LTD. | - | Non-current financial assets at fair value through profit or loss | 1,396 | 19,827 | 3.88% | 19,827 | 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 | 393,842 | 13.41% | 393,842 | 13.41 % | |
| Elan Investment Corp. | Linkinwave-Preferred shares | - | Non-current financial assets at fair value through profit or loss | - | - | -% | - | - % | |
| Elan Investment Corp. | Pica 8-Preferred shares | - | Non-current financial assets at fair value through profit or loss | 342 | - | 2.25% | - | 2.25 % | |
| Elan Investment Corp. | Arplanet Digital Technology CO., LTD | - | Non-current financial assets at fair value through profit or loss | 75 | 1,155 | 2.57% | 1,155 | 3.08 % | |
| Elan Investment Corp. | INNOJOY TECHNOLOGY INC.-Preferred Shares | - | Non-current financial assets at fair value through profit or loss | 143 | - | 7.62% | - | 10.00 % | |
| Elan Investment Corp. | ZQAM Communications Corporation-Preferred shares | - | Non-current financial assets at fair value through profit or loss | 250 | 2,672 | 1.44% | 2,672 | 4.63 % | |

(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. | e-Formula Technologies, Inc. | - | Non-current financial assets at fair value through profit or loss | 550 | 11,687 | 3.03% | 11,687 | 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 | 5,384 | 1.13% | 5,384 | 1.13 % | |
| Elan Investment Corp. | Cognito Health International Inc. | - | Non-current financial assets at fair value through profit or loss | 1,010 | - | 1.13% | - | 1.47 % | |
| Elan Investment Corp. | Taiwan Intelligent Connect CO., LTD.- Preferred shares | - | Non-current financial assets at fair value through profit or loss | 10,000 | 2,007 | 14.29% | 2,007 | 14.29 % | |
| 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 | 523,296 | 3.47 % | Open Account 45 Days | - | | 53,824 | 2.45% | |

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 TWD\$100 million or 20% of the capital stock: None.
- (ix) Trading in derivative instruments: None.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 | 523,296 | Open Account 45 Days | 3.47% |
| 0 | Elan Microelectronics Corporation | Elan H.K. | 1 | Accounts receivables | 53,824 | Open Account 45 Days | 0.37% |
| 1 | Elan H.K. | Elan Microelectronics Corporation | 2 | Commission revenue | 391,056 | Monthly settlement | 2.59% |

(b) Information on investees:

The followings are the information on investees for the years ended December 31, 2020 (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, 2020 | | | Highest Percentage of ownership | Net income (losses) of investee | Share of profits/losses of investee | Note |
|-----------------------------------|--|-------------------------|---|----------------------------|-------------------|---------------------------------|-------------------------|----------------|---------------------------------|---------------------------------|-------------------------------------|------|
| | | | | December 31, 2020 | December 31, 2019 | 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 % | 494,563 | 100.00 % | 201,463 | 201,463 | Note |
| Elan Microelectronics Corporation | Elan Investment Corp. | Taipei, Taiwan | Investment holding | 500,000 | 500,000 | 50,000 | 100.00 % | 1,087,994 | 100.00 % | (306,883) | (306,883) | 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 % | 17,275 | 100.00 % | 2,217 | 2,217 | Note |
| Elan Microelectronics Corporation | SHENZHEN 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 % | 223 | 49.00 % | (2,180) | (1,068) | 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 | 460,516 | 184,939 | 32,695 | 50.29 % | 138,756 | 63.60 % | (99,113) | (49,372) | Note |
| Elan Microelectronics Corporation | Avisonic Technology Corp. | Hsin-Chu, Taiwan | Research, design, develop, manufacture and sale on digital image-process chips | 134,523 | 134,523 | 12,542 | 80.08 % | (12,814) | 80.08 % | (28,117) | (22,917) | 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 | 11,712 | 11,712 | 1,805 | 45.07 % | - | 45.07 % | - | - | |
| Elan Microelectronics Corporation | PIXORD Corporation | Hsin-Chu, Taiwan | Research, design, develop, manufacture and sale on Webcam and server | 163,599 | 376,024 | 15,427 | 97.95 % | 63,846 | 97.95 % | (30,283) | (29,432) | 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 | 52,100 | 4,113 | 28.94 % | 33,091 | 28.94 % | 2,783 | 806 | Note |
| Elan Microelectronics Corporation | TOP TAIWAN X VENTURE CAPITAL CO., LTD. | Taipei, Taiwan | Venture capital | 240,000 | 240,000 | 24,000 | 30.00 % | 310,435 | 30.00 % | 103,450 | 31,035 | |
| Elan Microelectronics Corporation | Uniband Electronic Corp. | Hsin-Chu, Taiwan | Manufactures and sells electronic devices | 50,000 | 50,000 | 5,000 | 24.69 % | 9,187 | 24.69 % | (18,056) | (4,459) | |
| Elan Microelectronics Corporation | Finger Pro. Incorporation | Hsin-Chu, Taiwan | Manufactures and sells electronic devices | 6,000 | 6,000 | 600 | 23.08 % | - | 23.08 % | (2,039) | (1,267) | |
| Elan Microelectronics Corporation | RisingStar Technology Company Limited | Taipei, Taiwan | Software information and supply of electronic services | 20,000 | - | 2,000 | 86.96 % | 18,089 | 86.96 % | (881) | (605) | Note |
| Elan Microelectronics Corporation | Bruckewell Technology Co., Ltd | Hsin-Chu, Taiwan | Manufactures and sells electronic devices | 20,000 | - | 2,000 | 61.16 % | 12,568 | 61.16 % | (12,070) | (6,186) | 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, 2020 | | | Highest Percentage of ownership | Net income (losses) of investee | Share of profits/losses of investee | Note |
|-----------------------|--|-----------------------|---|----------------------------|-------------------|---------------------------------|-------------------------|----------------|---------------------------------|---------------------------------|-------------------------------------|------|
| | | | | December 31, 2020 | December 31, 2019 | Shares (thousands) | Percentage of ownership | Carrying value | | | | |
| Elan Investment Corp. | Avionic Technology Corp. | Hsin-Chu, Taiwan | Research, design, develop, manufacture and sale on digital image-process chips | 6,463 | 6,463 | 646 | 4.13 % | (649) | 4.13 % | (28,117) | (1,181) | 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 | 665 | 2,659 | 43 | 0.28 % | 180 | 0.50 % | (30,283) | (127) | 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 | 10,211 | 8,068 | 831 | 1.28 % | 19,797 | 4.26 % | (99,113) | (1,314) | 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 | 38,481 | 2,138 | 15.04 % | 17,681 | 15.04 % | 2,783 | 419 | Note |
| Elan (H.K.) | Power Asia Investment Corporation | Republic of Mauritius | Investment business | 89,572 | 89,572 | 2,861 | 100.00 % | 25,698 | 100.00 % | 617 | 617 | Note |

Note: Investments in subsidiaries the Company has control over have been eliminated at the Group level from long-term investment.

(c) Information on investment in mainland China:

(i) The name 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, 2020 | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2020 | Net income (losses) of the investee | Percentage of ownership | Highest Percentage of ownership | Investment income (losses) recognized | Carrying value as of December 31, 2020 | Accumulated inward remittance of earnings as of December 31, 2020 |
|------------------|--|---------------------------------|----------------------|---|------------------|--------|---|-------------------------------------|-------------------------|---------------------------------|---------------------------------------|--|---|
| | | | | | Outflow | Inflow | | | | | | | |
| Elan Shanghai | Provide system design, information on applications expansion | 52,095 | (2) | 52,095 | - | - | 52,095 | 1,126 | 100.00% | 100 % | 1,126 | 16,887 | - |
| Elan Shenzhen | Provide system design, information on applications expansion | 34,670 | (2) | 34,670 | - | - | 34,670 | (479) | 100.00% | 100 % | (479) | 8,370 | - |

Note 1: Method of investment:

- (1) Direct investment in Mainland China.
- (2) Indirect investment in Mainland China through a holding company established in other countries (Power Asia Investment Corporation).
- (3) Others.

Note 2: 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, 2020 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--|--|---------------------------|
| 86,765 | 98,333 | 5,430,373 |

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".

(d) Major shareholders:

No shareholders owned more than 5% equity interest in the Company.

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

(a) General information

The Group has six reportable segments: Consumer Touch Control Business Unit, Laptop Input Device Business Unit, Network Communication Business Unit, Investment Business Unit, Sales and Retailing Business Unit and Other Business Unit. 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 in network communication chips. Investment Business Unit engages in the management of investee. Sales and Retailing Business Unit provides sales product services. Other Business Unit engages 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) Information about reportable segments 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 in the report used by the chief operating decision maker. The operating segment accounting policies are similar to those described in note (4) "Significant accounting policies".

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ELAN MICROELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group's operating segment information and reconciliation are as follows:

| For the year then ended December 31, 2020 | | | | | | | | |
|---|--|---|---|-------------------------------------|--|---------------------------|--|-------------------|
| | Consumer Touch Control Business Unit | Laptop Input Device Business Unit | Network Communi- cation Business Unit | Investment Business Unit | Sales and Retailing Business Unit | Other Business Unit | Reconciliat- ion and elimination | Total |
| Revenue | | | | | | | | |
| Revenue from external customers | \$ 4,591,463 | 9,555,839 | 71,286 | - | 530,218 | 350,884 | - | 15,099,690 |
| Intersegment revenues | 531,120 | - | - | - | 391,056 | 28,182 | (950,358) | - |
| Interest revenue | 24,980 | 1,218 | 134 | 4,707 | 164 | 277 | - | 31,480 |
| Total revenue | <u>\$ 5,147,563</u> | <u>9,557,057</u> | <u>71,420</u> | <u>4,707</u> | <u>921,438</u> | <u>379,343</u> | <u>(950,358)</u> | <u>15,131,170</u> |
| Interest expenses | \$ 3,000 | 7 | 673 | 16 | 1,176 | 840 | - | 5,712 |
| Depreciation and amortization | 103,270 | 29,591 | 20,179 | 615 | 13,695 | 23,950 | - | 191,300 |
| Share of profit of equity-accounted investees (associates, and jointly controlled entities) | (186,668) | - | - | (2,203) | - | - | 211,977 | 23,106 |
| Other material non-cash items | | | | | | | | |
| Reportable segment profit or loss | <u>\$ 1,225,836</u> | <u>3,275,700</u> | <u>(102,984)</u> | <u>(1,122)</u> | <u>241,648</u> | <u>(58,386)</u> | <u>(363,493)</u> | <u>4,217,199</u> |
| Equity-accounted investees | \$ 2,173,213 | - | - | 37,009 | - | - | (1,890,600) | 319,622 |
| Non-current assets capital expenditure | 255,167 | 40,149 | 75,319 | - | 5,156 | 19,404 | - | 395,195 |
| Reportable segment assets | <u>\$ 10,082,034</u> | <u>3,846,552</u> | <u>406,364</u> | <u>2,749,372</u> | <u>650,028</u> | <u>403,433</u> | <u>(3,685,593)</u> | <u>14,452,190</u> |
| For the year then ended December 31, 2019 | | | | | | | | |
| | Consumer Touch Control Business Unit | Laptop Input Device Business Unit | Network Communi- cation Business Unit | Investme- nt Business Unit | Sales and Retailing Business Unit | Other Business Unit | Reconciliat- ion and elimination | Total |
| Revenue | | | | | | | | |
| Revenue from external customers | \$ 2,517,659 | 6,227,996 | 88,084 | - | 563,892 | 89,581 | 765 | 9,487,977 |
| Intersegment revenues | 562,860 | - | 1,156 | - | 240,494 | 28,314 | (832,824) | - |
| Interest revenue | 36,558 | 4,026 | 56 | 151 | 453 | 166 | - | 41,410 |
| Total revenue | <u>\$ 3,117,077</u> | <u>6,232,022</u> | <u>89,296</u> | <u>151</u> | <u>804,839</u> | <u>118,061</u> | <u>(832,059)</u> | <u>9,529,387</u> |
| Interest expenses | \$ 3,041 | 30 | 4,194 | 23 | 689 | 1,490 | - | 9,467 |
| Depreciation and amortization | 70,784 | 26,784 | 4,371 | 563 | 14,977 | 6,101 | - | 123,580 |
| Share of profit of equity-accounted investees (associates, and jointly controlled entities) | (602,411) | - | - | (2,881) | - | - | 650,974 | 45,682 |
| Reportable segment profit or loss | <u>\$ 2,137,454</u> | <u>2,121,165</u> | <u>(58,320)</u> | <u>(920)</u> | <u>73,221</u> | <u>(77,058)</u> | <u>(2,114,116)</u> | <u>2,081,426</u> |
| Equity-accounted investees | \$ 1,838,379 | - | - | 24,889 | - | - | (1,532,431) | 330,837 |
| Non-current assets capital expenditure | 87,356 | 30,549 | 62,808 | 1,844 | 147 | 5,467 | - | 188,171 |
| Reportable segment assets | <u>\$ 7,963,576</u> | <u>2,939,665</u> | <u>204,987</u> | <u>2,456,653</u> | <u>418,058</u> | <u>141,017</u> | <u>(2,877,064)</u> | <u>11,246,892</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:

| <u>Products and services</u> | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|-------------------------|
| Consumer Touch Control Integrated Circuit | \$ 5,121,681 | 3,082,316 |
| Laptop Input Device | 9,555,839 | 6,227,996 |
| Network Communication Integrated Circuit | 71,286 | 88,084 |
| Others | 350,884 | 89,581 |
| Total | <u><u>\$ 15,099,690</u></u> | <u><u>9,487,977</u></u> |

(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.

| <u>Geographical information</u> | <u>2020</u> | <u>2019</u> |
|----------------------------------|-----------------------------|-------------------------|
| Revenue from external customers: | | |
| Taiwan | \$ 973,713 | 987,990 |
| Mainland China | 2,512,482 | 2,020,647 |
| Hong Kong | 11,380,557 | 6,424,206 |
| Others (less than 5%) | 232,938 | 55,134 |
| | <u><u>\$ 15,099,690</u></u> | <u><u>9,487,977</u></u> |

| <u>Geographical information</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---------------------------------|----------------------------|--------------------------|
| Non-current assets: | | |
| Taiwan | \$ 1,536,311 | 1,260,596 |
| Mainland China | 20,596 | 26,903 |
| Hong Kong | 3,587 | 6,279 |
| | <u><u>\$ 1,560,494</u></u> | <u><u>1,293,778</u></u> |

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
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(iii) Information about major customers

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|-------------------------|
| Customer A (Laptop Input Device Model) | \$ 4,846,685 | 2,831,807 |
| Customer A (Consumer Touch Control Integrated Circuit Model) | 2,548,865 | 764,376 |
| Customer B (Laptop Input Device Model) | 2,531,298 | 1,713,092 |
| Customer B (Consumer Touch Control Integrated Circuit Model) | <u>151,091</u> | <u>347,609</u> |
| | <u>\$ 10,077,939</u> | <u>5,656,884</u> |