

ELITE SEMICONDUCTOR MICROELECTRONICS  
TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Financial Statements and  
Independent Auditors' Review Report

September 30, 2020 and 2019

(Stock Code: 3006)

(English Translation of a Report Originally Issued in Chinese)

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Elite Semiconductor Microelectronics Technology Inc. and Subsidiaries  
Consolidated Financial Statements and Independent Auditors' Review Report for  
September 30, 2020 and 2019  
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Report on Review of Interim Financial Information  
(2020)Finance-Audit-Letter No.20001900

To the Board of Directors and Shareholders of Elite Semiconductor Microelectronics Technology Inc.

**Introduction**

We have reviewed the accompanying consolidated balance sheets of Elite Semiconductor Microelectronics Technology Inc. and its subsidiaries (the “ Group”) as at September 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three months and nine months then ended, as well as the related consolidated statements of changes in equity and of cash flows for the nine months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard (IAS) No. 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission (FSC). Our responsibility is to express a conclusion on these interim financial statements based on our reviews and the review reports of other independent accountants.

**Scope of Review**

Except as explained in the Basis for Qualified Conclusion, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65, “Review of Financial Statements”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Basis for Qualified Conclusion**

As explained in Notes 4(3) and 6(6), the financial statements of certain insignificant consolidated subsidiaries and investments accounted for under the equity method were not reviewed by independent accountants. Those statements reflect total assets of NT\$526,342

thousand and NT\$773,351 thousand, constituting 4.2% and 7.7% of the consolidated total assets, and total liabilities of NT\$68,994 thousand and NT\$119,015 thousand, constituting 1.5% and 4.0% of the consolidated total liabilities as at September 30, 2020 and 2019, respectively, and total comprehensive income of NT\$(10,140) thousand and NT\$(17,162) thousand, constituting (4.1%) and (16.9%) of the consolidated total comprehensive income for the three months then ended, respectively, and NT\$(38,091) thousand and NT\$(64,583) thousand, constituting (4.4%) and (22.2%) of the consolidated total comprehensive income for the nine months then ended, respectively.

### **Qualified Conclusion**

Based on our reviews and the review reports of other independent accountants as described in the Other Matter–Review Reports By Other Independent Accountants section of our report, except for the possible effects of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2020 and 2019, and of its consolidated financial performance for the three months and nine months then ended and its consolidated cash flows for the nine months then ended in accordance with the “Rules Governing the Preparation of Financial Reports by Securities Issuers” and IAS No. 34, “Interim Financial Reporting” as endorsed by the FSC.

Cheng, Ya-Huei

Li, Tien-Yi

for and on behalf of PricewaterhouseCoopers, Taiwan

November 11, 2020

Elite Semiconductor Microelectronics Technology Inc. and Subsidiaries  
Consolidated Balance Sheets  
September 30, 2020, December 31, 2019 and September 30, 2019  
(The Balance Sheets as of September 30, 2020 and 2019 are unaudited)

Assets		Note	September 30, 2020		December 31, 2019		September 30, 2019	
			Amount	%	Amount	%	Amount	%
Unit: NT\$ thousand								
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 2,265,219	18	\$ 2,757,003	26	\$ 2,510,404	25
1110	Financial assets at fair value through profit or loss - current	6(2)	268,643	2	252,593	3	275,802	3
1136	Financial assets at amortized cost - current		139,680	1	140,906	1	208,199	2
1150	Notes receivable, net		232	-	34	-	-	-
1170	Accounts receivable, net	6(4)	1,712,482	14	1,256,938	12	1,523,899	15
1200	Other receivables		95,556	1	82,741	1	53,027	-
130X	Inventories	6(5)	6,747,076	54	4,972,552	48	4,454,708	44
1410	Prepayments		132,089	1	27,444	-	57,047	1
1470	Other current assets	8	4,999	-	6,866	-	5,106	-
11XX	<b>Total current assets</b>		<u>11,365,976</u>	<u>91</u>	<u>9,497,077</u>	<u>91</u>	<u>9,088,192</u>	<u>90</u>
<b>Non-current assets</b>								
1517	Financial assets at fair value through other comprehensive income - non-current	6(3)	69,278	1	50,776	-	52,802	1
1550	Investment accounted for under the equity method	6(6)	33,554	-	33,210	-	36,052	-
1600	Property, plant and equipment	6(7)	731,206	6	696,328	7	675,582	7
1755	Right-of-use assets	6(8)	82,418	1	86,367	1	95,106	1
1760	Investment property, net	6(9)	17,944	-	18,671	-	18,914	-
1780	Intangible assets	6(10)	110,723	1	81,593	1	111,047	1
1840	Deferred income tax assets		3,762	-	4,174	-	5,132	-
1900	Other non-current assets		27,198	-	12,124	-	12,643	-
15XX	<b>Total non-current assets</b>		<u>1,076,083</u>	<u>9</u>	<u>983,243</u>	<u>9</u>	<u>1,007,278</u>	<u>10</u>
1XXX	<b>Total assets</b>		<u>\$ 12,442,059</u>	<u>100</u>	<u>\$ 10,480,320</u>	<u>100</u>	<u>\$ 10,095,470</u>	<u>100</u>

(Continued)

Elite Semiconductor Microelectronics Technology Inc. and Subsidiaries  
Consolidated Balance Sheets  
September 30, 2020, December 31, 2019 and September 30, 2019  
(The Balance Sheets as of September 30, 2020 and 2019 are unaudited)

Liabilities and equity		Note	September 30, 2020		December 31, 2019		September 30, 2019	
			Amount	%	Amount	%	Amount	%
Unit: NTS thousand								
<b>Current liabilities</b>								
2100	Short-term borrowings	6(12)	\$ 1,094,000	9	\$ 274,000	3	\$ 270,000	3
2110	Short-term notes and bills payable		99,870	1	-	-	99,860	1
2130	Contract liabilities - current	6(19)	7,383	-	3,959	-	13,579	-
2150	Notes payable		3,938	-	1,981	-	3,773	-
2170	Accounts payable		2,521,962	20	2,225,909	21	1,972,998	20
2200	Other payables	6(13)	577,512	5	462,523	5	430,073	4
2230	Current income tax liabilities		124,809	1	40,046	-	28,992	-
2280	Lease liabilities - current		10,998	-	11,447	-	12,219	-
2300	Other current liabilities		6,010	-	6,080	-	6,144	-
21XX	<b>Total current liabilities</b>		<u>4,446,482</u>	<u>36</u>	<u>3,025,945</u>	<u>29</u>	<u>2,837,638</u>	<u>28</u>
<b>Non-current liabilities</b>								
2550	Provisions - non-current		16,142	-	15,083	-	14,760	-
2570	Deferred income tax liabilities		3,933	-	4,731	-	7,291	-
2580	Lease liabilities – non-current		72,167	1	75,440	1	83,287	1
2600	Other non-current liabilities		17,519	-	18,342	-	18,885	-
25XX	<b>Total non-current liabilities</b>		<u>109,761</u>	<u>1</u>	<u>113,596</u>	<u>1</u>	<u>124,223</u>	<u>1</u>
2XXX	<b>Total liabilities</b>		<u>4,556,243</u>	<u>37</u>	<u>3,139,541</u>	<u>30</u>	<u>2,961,861</u>	<u>29</u>
<b>Equity attributable to owners of the parent</b>								
Share capital								
3110	Common stock	6(16)	2,857,589	23	2,857,589	27	2,857,589	28
Capital surplus								
3200	Capital surplus	6(17)	109,709	1	104,305	1	104,125	1
Retained earnings								
3310	Legal reserve	6(18)	1,409,039	11	1,359,235	13	1,359,235	14
3320	Special reserve		8,524	-	-	-	-	-
3350	Unappropriated retained earnings		3,771,249	30	3,286,176	31	3,075,551	30
Other equity interest								
3400	Other equity interest		9,978	-	( 8,524)	-	( 6,498)	-
3500	Treasury shares	6(16)	( 145,649)	( 1)	( 137,321)	( 1)	( 137,321)	( 1)
31XX	<b>Total equity attributable to owners of the parent</b>		<u>8,020,439</u>	<u>64</u>	<u>7,461,460</u>	<u>71</u>	<u>7,252,681</u>	<u>72</u>
36XX	<b>Non-controlling interest</b>		<u>( 134,623)</u>	<u>( 1)</u>	<u>( 120,681)</u>	<u>( 1)</u>	<u>( 119,072)</u>	<u>( 1)</u>
3XXX	<b>Total equity</b>		<u>7,885,816</u>	<u>63</u>	<u>7,340,779</u>	<u>70</u>	<u>7,133,609</u>	<u>71</u>
Significant Contingent Liabilities and Unrecognized Contractual Commitments								
3X2X	<b>Total liabilities and equity</b>	9	<u>\$ 12,442,059</u>	<u>100</u>	<u>\$ 10,480,320</u>	<u>100</u>	<u>\$ 10,095,470</u>	<u>100</u>

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

Chairman: Hsing-Hai Chen

Manager: Ming-Chien Chang

Accounting Manager: Candy Chu

Elite Semiconductor Microelectronics Technology Inc. and Subsidiaries  
Consolidated Statements of Comprehensive Income  
Nine Months Ended September 30, 2020 and 2019  
(Unaudited)

Unit: NT\$ thousand

(Except earnings per share)

Items	Notes	Three months ended September 30, 2020		Three months ended September 30, 2019		Nine months ended September 30, 2020		Nine months ended September 30, 2019	
		Amount	%	Amount	%	Amount	%	Amount	%
4000 Operating revenue	6(19)	\$ 3,999,177	100	\$ 3,244,878	100	\$ 10,873,535	100	\$ 8,905,876	100
5000 Operating costs	6(5) (24) (25)	( 3,367,716)	( 85)	( 2,827,468)	( 87)	( 8,828,409)	( 81)	( 7,756,426)	( 87)
5950 Gross profit		<u>631,461</u>	<u>15</u>	<u>417,410</u>	<u>13</u>	<u>2,045,126</u>	<u>19</u>	<u>1,149,450</u>	<u>13</u>
Operating expenses	6(24) (25)								
6100 Selling expenses		( 71,123)	( 2)	( 59,060)	( 2)	( 197,544)	( 2)	( 170,383)	( 2)
6200 Administrative expenses		( 64,782)	( 1)	( 61,824)	( 2)	( 222,625)	( 2)	( 177,382)	( 2)
6300 Research and development expenses		( 234,198)	( 6)	( 190,382)	( 6)	( 690,354)	( 6)	( 539,401)	( 6)
6450 Expected credit impairment gain (loss)	12(2)	1,839	-	-	-	1,839	-	( 10,006)	-
6000 Total operating expenses		<u>( 368,264)</u>	<u>( 9)</u>	<u>( 311,266)</u>	<u>( 10)</u>	<u>( 1,108,684)</u>	<u>( 10)</u>	<u>( 897,172)</u>	<u>( 10)</u>
6900 Operating profit		<u>263,197</u>	<u>6</u>	<u>106,144</u>	<u>3</u>	<u>936,442</u>	<u>9</u>	<u>252,278</u>	<u>3</u>
Non-operating income and expenses									
7100 Interest income	6(20)	3,987	-	13,183	-	22,572	-	36,637	-
7010 Other income	6(21)	16,917	1	30,646	1	24,497	-	38,317	1
7020 Other gains or losses	6(22)	5,274	-	( 35,525)	( 1)	( 4,629)	-	37,962	-
7050 Financial costs	6(23)	( 3,256)	-	( 2,233)	-	( 7,463)	-	( 7,453)	-
7060 Share of profit (loss) of associates and joint ventures accounted for under equity method	6(6)	2,008	-	( 2,963)	-	344	-	( 7,786)	-
7000 Total non-operating income and expenses		<u>24,930</u>	<u>1</u>	<u>3,108</u>	<u>-</u>	<u>35,321</u>	<u>-</u>	<u>97,677</u>	<u>1</u>
7900 Profit before income tax		<u>288,127</u>	<u>7</u>	<u>109,252</u>	<u>3</u>	<u>971,763</u>	<u>9</u>	<u>349,955</u>	<u>4</u>
7950 Income tax expenses	6(26)	( 42,088)	( 1)	( 14,927)	-	( 134,452)	( 1)	( 52,892)	( 1)
8200 Profit for the period		<u>\$ 246,039</u>	<u>6</u>	<u>\$ 94,325</u>	<u>3</u>	<u>\$ 837,311</u>	<u>8</u>	<u>\$ 297,063</u>	<u>3</u>
Other comprehensive income (loss) - net									
Items not reclassified to profit or loss									
8316 Unrealized gain (loss) on valuation of equity instruments at fair value through other comprehensive income	6(3)	(\$ 471)	-	\$ 7,346	-	\$ 18,502	-	(\$ 6,498)	-
8300 Other comprehensive income (loss) - net		<u>(\$ 471)</u>	<u>-</u>	<u>\$ 7,346</u>	<u>-</u>	<u>\$ 18,502</u>	<u>-</u>	<u>(\$ 6,498)</u>	<u>-</u>
8500 Total comprehensive income for the period		<u>\$ 245,568</u>	<u>6</u>	<u>\$ 101,671</u>	<u>3</u>	<u>\$ 855,813</u>	<u>8</u>	<u>\$ 290,565</u>	<u>3</u>
Profit (loss) attributable to:									
8610 Owners of the parent		<u>\$ 237,813</u>	<u>6</u>	<u>\$ 83,329</u>	<u>3</u>	<u>\$ 829,160</u>	<u>8</u>	<u>\$ 287,416</u>	<u>3</u>
8620 Non-controlling interest		<u>\$ 8,226</u>	<u>-</u>	<u>\$ 10,996</u>	<u>-</u>	<u>\$ 8,151</u>	<u>-</u>	<u>\$ 9,647</u>	<u>-</u>
Comprehensive income (loss) attributable to:									
8710 Owners of the parent		<u>\$ 237,342</u>	<u>6</u>	<u>\$ 90,675</u>	<u>3</u>	<u>\$ 847,662</u>	<u>8</u>	<u>\$ 280,918</u>	<u>3</u>
8720 Non-controlling interest		<u>\$ 8,226</u>	<u>-</u>	<u>\$ 10,996</u>	<u>-</u>	<u>\$ 8,151</u>	<u>-</u>	<u>\$ 9,647</u>	<u>-</u>
Earnings per share	6(27)								
9750 Basic earnings per share		<u>\$ 0.85</u>		<u>\$ 0.30</u>		<u>\$ 2.96</u>		<u>\$ 1.03</u>	
9850 Diluted earnings per share		<u>\$ 0.85</u>		<u>\$ 0.30</u>		<u>\$ 2.94</u>		<u>\$ 1.02</u>	

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

Chairman: Hsing-Hai Chen

Manager: Ming-Chien Chang

Accounting Manager: Candy Chu

Elite Semiconductor Microelectronics Technology Inc. and Subsidiaries  
Consolidated Statements of Changes in Equity  
Nine Months Ended September 30, 2020 and 2019  
(Unaudited)

Unit: NT\$ thousand

		Equity attributable to owners of the parent									
		Retained earnings					Unrealized gain (loss) on financial assets measured at fair value through other comprehensive income	Treasury share	Total	Non-controlling interest	Total equity
Note	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings						
<u>2019</u>											
	Balance at January 1, 2019	\$ 2,857,589	\$ 59,072	\$ 1,288,584	\$ 194,377	\$ 3,093,047	\$ -	(\$ 137,321)	\$ 7,355,348	(\$ 110,910)	\$ 7,244,438
	Profit for the period	-	-	-	-	287,416	-	-	287,416	9,647	297,063
	Other comprehensive income for the period	-	-	-	-	-	(6,498)	-	(6,498)	-	(6,498)
	Comprehensive income for the period	-	-	-	-	287,416	(6,498)	-	280,918	9,647	290,565
	Distribution of 2018 earnings										
	Legal reserve appropriated	-	-	70,651	-	(70,651)	-	-	-	-	-
	Cash dividends of ordinary share	-	-	-	-	(428,638)	-	-	(428,638)	-	(428,638)
	Reversal of special reserve	-	-	-	(194,377)	194,377	-	-	-	-	-
	Recognition of effects from change in ownership interests in subsidiaries - cash dividends distribution from subsidiaries	-	1,146	-	-	-	-	-	1,146	(15,444)	(14,298)
	Adjustment of capital reserve due to not acquire new shares proportionally to its interest	-	35,475	-	-	-	-	-	35,475	(2,365)	33,110
	Adjustment of capital reserve due to cash dividends that subsidiaries received from parent	-	8,438	-	-	-	-	-	8,438	-	8,438
	Expired cash dividends transferred to capital surplus	-	39	-	-	-	-	-	39	-	39
	Adjustment of payments of expired cash dividends	-	(45)	-	-	-	-	-	(45)	-	(45)
	Balance at September 30, 2019	<u>\$ 2,857,589</u>	<u>\$ 104,125</u>	<u>\$ 1,359,235</u>	<u>\$ -</u>	<u>\$ 3,075,551</u>	<u>(\$ 6,498)</u>	<u>(\$ 137,321)</u>	<u>\$ 7,252,681</u>	<u>(\$ 119,072)</u>	<u>\$ 7,133,609</u>
<u>2020</u>											
	Balance at January 1, 2020	\$ 2,857,589	\$ 104,305	\$ 1,359,235	\$ -	\$ 3,286,176	(\$ 8,524)	(\$ 137,321)	\$ 7,461,460	(\$ 120,681)	\$ 7,340,779
	Profit for the period	-	-	-	-	829,160	-	-	829,160	8,151	837,311
	Other comprehensive income for the period	-	-	-	-	-	18,502	-	18,502	-	18,502
	Comprehensive income for the period	-	-	-	-	829,160	18,502	-	847,662	8,151	855,813
	Distribution of 2019 earnings										
	Legal reserve appropriated	-	-	49,804	-	(49,804)	-	-	-	-	-
	Cash dividends of ordinary share	-	-	-	-	(285,759)	-	-	(285,759)	-	(285,759)
	Reversal of special reserve	-	-	-	8,524	(8,524)	-	-	-	-	-
	Treasury share acquired	-	-	-	-	-	-	(8,328)	(8,328)	(11,566)	(19,894)
	Recognition of effects from change in ownership interests in subsidiaries - cash dividends distribution from subsidiaries	-	1,146	-	-	-	-	-	1,146	(10,396)	(9,250)
	Adjustment of capital reserve due to cash dividends that subsidiaries received from parent	-	5,925	-	-	-	-	-	5,925	-	5,925
	Recognition of effects from change in ownership interests in subsidiaries - subsidiary acquired non-controlling interest	-	(1,749)	-	-	-	-	-	(1,749)	(131)	(1,880)
	Expired cash dividends transferred to capital surplus	-	82	-	-	-	-	-	82	-	82
	Balance at September 30, 2020	<u>\$ 2,857,589</u>	<u>\$ 109,709</u>	<u>\$ 1,409,039</u>	<u>\$ 8,524</u>	<u>\$ 3,771,249</u>	<u>\$ 9,978</u>	<u>(\$ 145,649)</u>	<u>\$ 8,020,439</u>	<u>(\$ 134,623)</u>	<u>\$ 7,885,816</u>

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

Chairman: Hsing-Hai Chen

Manager: Ming-Chien Chang

Accounting Manager: Candy Chu

Elite Semiconductor Microelectronics Technology Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
Nine Months Ended September 30, 2020 and 2019  
(Unaudited)

Unit: NT\$ thousand

	<u>Notes</u>	<u>Nine months ended September 30, 2020</u>		<u>Nine months ended September 30, 2019</u>
<b><u>Cash flows from operating activities</u></b>				
Profit before income tax for the period		\$ 971,763		\$ 349,955
Adjustments				
Income and expenses having no effect on cash flows				
Depreciation	6(7)(8)(9)(24)	236,148		313,603
Amortization	6(10)(24)	80,831		66,554
Expected credit impairment loss (gain)	12(2)	( 1,839 )		10,006
Net loss (gain) on financial assets at fair value through profit or loss	6(2)(22)	( 17,174 )	(	10,192 )
Interest expenses	6(23)	7,463		7,453
Interest income	6(20)	( 22,572 )	(	36,637 )
Share of (loss) profit of associates and joint ventures accounted for under equity method	6(6)	( 344 )		7,786
Dividend income	6(21)	( 13,053 )	(	26,570 )
Gains arising from lease modifications	6(22)	( 148 )		-
Changes in assets/liabilities relating to operating activities				
Net changes in assets relating to operating activities				
Financial assets at fair value through profit and loss		1,124		-
Notes receivable		( 198 )		-
Accounts receivable		( 453,100 )	(	426,710 )
Accounts receivable - related parties		( 605 )	(	1,415 )
Other receivables		( 17,630 )		16,081
Inventories		( 1,774,524 )		1,312,948
Prepayments		( 104,645 )		22,781
Other current assets		1,867	(	2,186 )
Net changes in liabilities relating to operating activities				
Notes payable		1,957		1,028
Accounts payable		296,053		78,627
Contract liabilities		3,424		10,008
Other payables		119,981	(	45,951 )
Other current liabilities		( 70 )		1,805
Other non-current liabilities		( 823 )		291
Cash (outflow) inflow generated from operations		( 686,114 )		1,649,265
Interest received		27,386		35,906
Interest paid		( 6,632 )	(	6,625 )
Income taxes paid		( 50,075 )	(	147,878 )
Net cash flows from operating activities		( 715,435 )		1,530,668

(Continued)

Elite Semiconductor Microelectronics Technology Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
Nine Months Ended September 30, 2020 and 2019  
(Unaudited)

Unit: NT\$ thousand

	<u>Notes</u>	<u>Nine months ended September 30, 2020</u>	<u>Nine months ended September 30, 2019</u>
<b><u>Cash flows from investing activities</u></b>			
Acquisition of financial assets at amortized cost		( \$ 143,133 )	( \$ 208,199 )
Disposal of financial assets at amortized cost		144,359	-
Acquisition of financial assets at fair value through other comprehensive income		-	( 15,149 )
Proceeds from disposal of financial assets at fair value through profit or loss		-	55,913
Acquisition of property, plant and equipment	6(29)	( 267,470 )	( 207,051 )
(Increase) decrease in prepayments for equipment		( 15,941 )	52,492
Acquisition of intangible assets	6(10)	( 109,961 )	( 43,626 )
Cash outflows from disposal of subsidiaries		-	( 11,607 )
Decrease in guarantee deposit paid		869	169
Dividends received	6(21)	13,053	26,570
Net cash flows from investing activities		<u>( 378,224 )</u>	<u>( 350,488 )</u>
<b><u>Cash flows from financing activities</u></b>			
Increase (decrease) in short-term borrowings	6(29)	820,000	( 100,000 )
Short-term notes and bills payable	6(29)	100,346	444
Lease principal repayment	6(29)	( 7,695 )	( 9,813 )
Increase in guarantee deposit received	6(29)	-	269
Cash dividends paid	6(18)	( 285,759 )	( 428,638 )
Subsidiaries paid cash dividends to minority share interests		( 9,250 )	( 14,298 )
Subsidiaries received cash dividends from parent	6(17)	5,925	8,438
Expired cash dividends	6(17)	82	39
Payments of expired cash dividends	6(17)	-	( 45 )
Treasury share acquired		( 19,894 )	-
Acquisition of ownership interests in subsidiaries	6(28)	( 1,880 )	-
Net cash flows from (used in) financing activities		<u>601,875</u>	<u>( 543,604 )</u>
Net (decrease) increase in cash and cash equivalents		( 491,784 )	636,576
Cash and cash equivalents at beginning of period	6(1)	<u>2,757,003</u>	<u>1,873,828</u>
Cash and cash equivalents at end of period	6(1)	<u>\$ 2,265,219</u>	<u>\$ 2,510,404</u>

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

Chairman: Hsing-Hai Chen

Manager: Ming-Chien Chang

Accounting Manager: Candy Chu

Elite Semiconductor Microelectronics Technology Inc. and Subsidiaries  
Notes to the Consolidated Financial Statements  
Nine Months Ended September 30, 2020 and 2019  
(Unaudited)

Unit: NT\$ thousand  
(Unless otherwise indicated)

1. History and Organization

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

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

2. The Date of Authorization for Issuance of the Consolidated Financial Statements and Procedures for Authorization

The consolidated financial statements were reported to the Board of Directors on November 11, 2020.

3. Application of New Standards, Amendments and Interpretations

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

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

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date by International Accounting Standards Board</u>
Amendments to IAS 1 and IAS 8, “Disclosure Initiative - Definition of Material”	January 1, 2020
Amendments to IFRS 3, “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS 39, and IFRS 7, “Interest rate benchmark reform”	January 1, 2020
Amendments to IFRS 16, “Covid-19-Related Rent Concessions”	June 1, 2020 (Note)

Note: Earlier application from January 1, 2020 is allowed by FSC.

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

(2) Effect of New Issuances of or Amendments to IFRSs as Endorsed by the FSC but not yet Adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2021 are as follows:

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date by International Accounting Standards Board</u>
Amendments to IFRS 4, "Extension of the Temporary Exemption from Applying IFRS 9"	January 1, 2021

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

(3) Effects of IFRSs Issued by IASB but not yet Endorsed by the FSC

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

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date by International Accounting Standards Board</u>
Amendments to IFRS 3, "Reference to the Conceptual Framework"	January 1, 2022
Amendments to IFRS 10 and IAS 28, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17, "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17, "Insurance Contracts"	January 1, 2023
Amendments to IAS 1, "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 16, "Property, Plant and Equipment - Proceeds before Intended Use"	January 1, 2022
Amendments to IAS 37, "Onerous Contracts - Cost of Fulfilling a Contract"	January 1, 2022
Annual Improvements to IFRSs 2018-2020 Cycle	January 1, 2022
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16, "Interest Rate Benchmark Reform-Phase2"	January 1, 2021

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

#### 4. Summary of Significant Accounting Policies

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2019, except for the compliance statement, basis of preparation, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

- A. These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IAS 34, “Interim Financial Reporting” as endorsed by the FSC.
- B. These consolidated financial statements should be read along with the consolidated financial statements for the year ended December 31, 2019.

##### (2) Basis of preparation

- A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:
  - (a) Financial assets (including derivatives instruments) at fair value through profit or loss.
  - (b) Financial assets at fair value through other comprehensive income.
  - (c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligations.
- B. The preparation of financial statements in conformity with IFRS, IAS, IFRIC Interpretations and SIC Interpretations as endorsed by FSC (collectively referred herein as IFRSs), requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are estimates are significant to the consolidated financial statements are disclosed in Note 5.

##### (3) Basis of consolidation

###### A. Basis for preparation of consolidated financial statements

The basis of preparation for the consolidated financial statements applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2019.

###### B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership(%)			Note
			September 30, 2020	December 31, 2019	September 30, 2019	
Elite Semiconductor Microelectronics Technology Inc.	Elite Memory Technology Inc.	Research and development, production, sales and related consulting services of integrated circuit	100	100	100	Note1
Elite Semiconductor Microelectronics Technology Inc.	CML Inc.	General investment	-	-	100	Note2 Note4
Elite Semiconductor Microelectronics Technology Inc.	Charng Feng Investment Ltd.	General investment	100	100	100	Note1
Elite Semiconductor Microelectronics Technology Inc.	Jie Yong Investment Ltd.	General investment	41.86	41.86	41.86	Note1 Note3
Elite Semiconductor Microelectronics Technology Inc.	Elite Investment Services Ltd.	General investment	100	100	100	
Elite Semiconductor Microelectronics Technology Inc.	Elite Semiconductor (B.V.I.) Ltd.	General investment	100	100	100	Note1
Elite Semiconductor Microelectronics Technology Inc.	Eon Silicon Solutions, Inc. USA	Investigation and research of business situation and industrial technology	100	100	100	Note1
Charng Feng Investment Ltd.	3R Semiconductor Technology Inc.	Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade	100	100	100	Note1
Charng Feng Investment Ltd.	Elite Silicon Technology Inc.	Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade	97.69	79.37	79.37	Note1
Charng Feng Investment Ltd.	Elite Innovation Japan Ltd.	Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade	100	100	100	Note1

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership(%)			Note
			September 30, 2020	December 31, 2019	September 30, 2019	
Charng Feng Investment Ltd.	Elite Semiconductor Microelectronics Technology (Shenzhen) Inc.	Trading of goods or technical services, develop and sale products of networking system, storage, and peripherals, technical consulting and services of integrated circuit, and after - sales service	100	100	100	Note1
Charng Feng Investment Ltd.	Elite Semiconductor Microelectronics (Shanghai) Technology Inc.	Product design, wholesale and retail of electronic materials, information software services and international trade	100	-	-	Note1 Note5
Charng Feng Investment Ltd.	CHI Microelectronics Limited	Trading	-	-	-	Note6

Note 1: As the subsidiaries do not meet the definition of significant subsidiaries, their financial statements as at September 30, 2020 were not reviewed by independent auditors.

Note 2: As the subsidiaries do not meet the definition of significant subsidiaries, their financial statements as at September 30, 2019 were not reviewed by independent auditors.

Note 3: Elite Semiconductor Microelectronics Technology Inc. accounts for the majority of voting rights of Jie Yong Investment Ltd. and have same management. It is evaluated to have substantial control, so it was included in the consolidated financial statements.

Note 4: CML Inc. carried out liquidation procedures in December 2019 and obtained a release approval letter on May 18, 2020.

Note 5: Elite Semiconductor Microelectronics (Shanghai) Technology Inc. was established on November 27, 2019. The Company's subsidiary, Charng Feng Investment Ltd., obtained the investment amount of USD200,000 approved by the Investment Commission, MOEA on May 20, 2020.

Note 6: CHI Microelectronics Limited. was established on August 31, 2020 and has not applied for investment to Investment Commission, MOEA. It has not yet operated as of September 30, 2020.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates:

Not applicable.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Employee Benefits

Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

(5) Income tax

The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

5. Critical Accounting Judgments, Estimates and Key Sources of Assumption Uncertainty

There was no significant change in the reporting period. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2019.

6. Details of Significant Accounts

(1) Cash and cash equivalents

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand and revolving funds	\$ 152	\$ 171	\$ 193
Checking accounts and demand deposits	556,761	394,658	346,854
Time deposits	<u>1,708,306</u>	<u>2,362,174</u>	<u>2,163,357</u>
	<u>\$ 2,265,219</u>	<u>\$ 2,757,003</u>	<u>\$ 2,510,404</u>

A. The Group associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. Details of the Group's cash and cash equivalents pledged to others as collateral are provided in Note 8.

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

Item	September 30, 2020	December 31, 2019	September 30, 2019
Current items:			
Financial assets mandatorily measured at fair value through profit or loss			
Listed stock	\$ 576	\$ 1,567	\$ 1,567
Emerging stocks	148,013	148,013	162,577
Unlisted stock	23,263	23,263	19,563
Beneficiary certificates	73,590	74,442	75,466
Bonds	31,226	31,226	31,226
Preference share	<u>14,084</u>	<u>14,510</u>	<u>15,023</u>
Subtotal	290,752	293,021	305,422
Valuation adjustment	( 22,109)	( 40,428)	( 29,620)
Total	<u>\$ 268,643</u>	<u>\$ 252,593</u>	<u>\$ 275,802</u>

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	Three months ended September 30,	
	2020	2019
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	\$ 11,337	(\$ 31,398)
Debt instruments	544	951
Beneficiary certificates	<u>2,711</u>	<u>( 2,533)</u>
Total	<u>\$ 14,592</u>	<u>(\$ 32,980)</u>

	Nine months ended September 30,	
	2020	2019
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	\$ 14,607	\$ 5,156
Debt instruments	( 336)	2,251
Beneficiary certificates	<u>2,903</u>	<u>2,785</u>
Total	<u>\$ 17,174</u>	<u>\$ 10,192</u>

B. The Group has no financial assets at fair value through profit or loss pledged to others.

C. Information relating to credit risk is provided in Note 12(2)C(b).

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

Item	September 30, 2020	December 31, 2019	September 30, 2019
Non-current items:			
Equity instruments			
Unlisted stock	\$ 59,300	\$ 59,300	\$ 59,300
Valuation adjustment	<u>9,978</u>	<u>( 8,524)</u>	<u>( 6,498)</u>
	<u>\$ 69,278</u>	<u>\$ 50,776</u>	<u>\$ 52,802</u>

The Group has elected to classify equity investments that are considered to strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$69,278, \$50,776 and \$52,802 as at September 30, 2020, December 31, 2019, and September 30, 2019, respectively.

(4) Accounts receivable

	September 30, 2020	December 31, 2019	September 30, 2019
Accounts receivable - general customers	\$ 1,724,092	\$ 1,270,992	\$ 1,536,301
Accounts receivable - related parties	<u>846</u>	<u>241</u>	<u>1,893</u>
	1,724,938	1,271,233	1,538,194
Less: Allowance for losses	<u>( 12,456)</u>	<u>( 14,295)</u>	<u>( 14,295)</u>
	<u>\$ 1,712,482</u>	<u>\$ 1,256,938</u>	<u>\$ 1,523,899</u>

A. The ageing analysis of accounts receivable is as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Not past due	\$ 1,712,482	\$ 1,256,700	\$ 1,523,899
Past due-within 30 days	-	238	-
Past due-31-60 days	-	-	-
Past due-91-180 days	-	-	-
Past due-over 180 days	<u>12,456</u>	<u>14,295</u>	<u>14,295</u>
	<u>\$ 1,724,938</u>	<u>\$ 1,271,233</u>	<u>\$ 1,538,194</u>

The above ageing analysis was based on past due date.

B. As at September 30, 2020, December 31, 2019 and September 30, 2019, without taking into account any collateral held or other credit enhancements, the maximum hedge to credit risk in respect of the amount that best represents the Group's accounts receivable were \$1,712,482, \$1,256,938 and \$1,523,899.

C. The collaterals and fair value held by the Group as guarantee for accounts receivable are as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Bank guarantee	\$ 27,230	\$ 43,494	\$ 48,812
Pledged certificate of deposit	-	7,500	7,500
Guarantee deposits received (shown as “other non-current liabilities”)	8,548	8,794	9,091
Letters of credit	597,880	546,672	539,311
Company promissory note/check	<u>388,039</u>	<u>366,621</u>	<u>360,403</u>
	<u>\$ 1,021,697</u>	<u>\$ 973,081</u>	<u>\$ 965,117</u>

D. Information relating to credit risk is provided in Note 12(2).

E. As at September 30, 2020, December 31, 2019 and September 30, 2019, accounts receivable were all from contracts with customers. As at January 1, 2019, the balance of receivables from contracts with customers amounted to \$1,105,913.

F. The Group has no accounts receivable pledged to others as collateral.

(5) Inventories

	September 30, 2020		
	Cost	Allowance for valuation loss	Bok value
Raw materials	\$ 336,580	(\$ 4,925)	\$ 331,655
Work in process	5,096,116	( 34,370)	5,061,746
Finished goods	1,422,114	( 76,553)	1,345,561
Inventory in transit	<u>8,114</u>	<u>-</u>	<u>8,114</u>
	<u>\$ 6,862,924</u>	<u>(\$ 115,848)</u>	<u>\$ 6,747,076</u>

	December 31, 2019		
	Cost	Allowance for valuation loss	Bok value
Raw materials	\$ 158,670	(\$ 9,794)	\$ 148,876
Work in process	4,013,286	( 70,663)	3,942,623
Finished goods	965,399	( 88,739)	876,660
Inventory in transit	<u>4,393</u>	<u>-</u>	<u>4,393</u>
	<u>\$ 5,141,748</u>	<u>(\$ 169,196)</u>	<u>\$ 4,972,552</u>

	September 30, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 309,837	(\$ 30,349)	\$ 279,488
Work in process	3,467,776	( 128,595)	3,339,181
Finished goods	935,862	( 107,086)	828,776
Inventory in transit	<u>7,263</u>	<u>-</u>	<u>7,263</u>
	<u>\$ 4,720,738</u>	<u>(\$ 266,030)</u>	<u>\$ 4,454,708</u>

The Group recognized as expense or loss:

	Three months ended September 30,	
	2020	2019
Cost of goods sold	\$ 3,367,229	\$ 2,850,606
Loss on market value decline and obsolete and slow-moving inventories(reversal of allowance)	<u>487</u>	<u>( 23,138)</u>
	<u>\$ 3,367,716</u>	<u>\$ 2,827,468</u>

	Nine months ended September 30,	
	2020	2019
Cost of goods sold	\$ 8,881,757	\$ 7,745,050
Loss on market value decline and obsolete and slow-moving inventories(reversal of allowance)	<u>( 53,348)</u>	<u>11,376</u>
	<u>\$ 8,828,409</u>	<u>\$ 7,756,426</u>

The reversal of net realized value and decrease of cost of goods sold were recognized due to sale of certain inventories which were previously provided with allowance for price decline.

(6) Investments accounted for under the equity method

	2020	2019
At January 1	\$ 33,210	\$ -
Addition of investments accounted for using equity method(Note)	-	43,838
Share of profit or loss of investments accounted for using equity method	<u>344</u>	<u>( 7,786)</u>
At September 30	<u>\$ 33,554</u>	<u>\$ 36,052</u>

	September 30, 2020	December 31, 2019	September 30, 2019
Associates	<u>\$ 33,554</u>	<u>\$ 33,210</u>	<u>\$ 36,052</u>

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

#### A. Associates

(a) The basic information of the associates that are material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio			Nature of relationship	Method of measurement
		September 30, 2020	December 31, 2019	September 30, 2019		
Canyon Semiconductor Inc.	Taiwan	40.93%	40.93%	38.21%	Holding over 20% of voting rights	Equity method

(b) The summarized financial information of the associates that are material to the Group is as follows:

#### Balance sheet

	Canyon Semiconductor Inc.		
	September 30, 2020	December 31, 2019	September 30, 2019
Current assets	\$ 112,822	\$ 91,092	\$ 99,553
Non-current assets	1,498	1,596	2,252
Current liabilities	( 32,341)	( 11,549)	( 7,455)
Total net assets	<u>\$ 81,979</u>	<u>\$ 81,139</u>	<u>\$ 94,350</u>
Share in associate's net assets	<u>\$ 33,554</u>	<u>\$ 33,210</u>	<u>\$ 36,052</u>
Carrying amount of the associate	<u>\$ 81,979</u>	<u>\$ 81,139</u>	<u>\$ 94,350</u>

#### Statement of comprehensive income

	Canyon Semiconductor Inc.	
	Three months ended September 30,	
	2020	2019
Revenue	<u>\$ 43,244</u>	<u>\$ 4,517</u>
Profit (loss) for the period from continuing operations	<u>\$ 4,906</u>	<u>(\$ 7,757)</u>
Total comprehensive income (loss)	<u>\$ 4,906</u>	<u>(\$ 7,757)</u>

Canyon Semiconductor Inc.		
Nine months ended September 30,		
	2020	2019
Revenue	\$ 107,657	\$ 14,374
Profit (loss) for the period from continuing operations	\$ 840	(\$ 20,378)
Total comprehensive income (loss)	\$ 840	(\$ 20,378)

C. The above investments accounted for under the equity method is based on the company's evaluation of financial statements that have not been reviewed by individual auditors during the same period. The recognition of profit or loss of investments is as follows:

Three months ended September 30,		
Investee	2020	2019
Canyon Semiconductor Inc.	\$ 2,008	(\$ 2,963)

  

Nine months ended September 30,		
Investee	2020	2019
Canyon Semiconductor Inc.	\$ 344	(\$ 7,786)

(7) Property, plant and equipment

	Land	Buildings and structures	Machinery equipment	Testing equipment	Others	Total
At January 1, 2020						
Cost	\$9,023	\$635,941	\$429,782	\$249,302	\$1,231,048	\$2,555,096
Accumulated depreciation and impairment	-	( 364,888)	( 352,626)	( 146,396)	( 994,858)	( 1,858,768)
	<u>\$9,023</u>	<u>\$271,053</u>	<u>\$ 77,156</u>	<u>\$102,906</u>	<u>\$ 236,190</u>	<u>\$ 696,328</u>
<u>2020</u>						
At January 1	\$9,023	\$271,053	\$ 77,156	\$102,906	\$ 236,190	\$ 696,328
Additions	-	-	74,027	19,531	164,499	258,057
Transfer (Note)	-	-	2,719	1,455	-	4,174
Depreciation charge	-	( 25,562)	( 15,143)	( 16,836)	( 169,812)	( 227,353)
At September 30	<u>\$9,023</u>	<u>\$245,491</u>	<u>\$138,759</u>	<u>\$107,056</u>	<u>\$ 230,877</u>	<u>\$ 731,206</u>
At September 30, 2020						
Cost	\$9,023	\$635,941	\$506,528	\$270,280	\$1,395,445	\$2,817,217
Accumulated depreciation and impairment	-	( 390,450)	( 367,769)	( 163,224)	(1,164,568)	( 2,086,011)
	<u>\$9,023</u>	<u>\$245,491</u>	<u>\$138,759</u>	<u>\$107,056</u>	<u>\$ 230,877</u>	<u>\$ 731,206</u>

	Land	Buildings and structures	Machinery equipment	Testing equipment	Others	Total
At January 1, 2019						
Cost	\$9,023	\$615,250	\$393,874	\$188,647	\$1,081,083	\$2,287,877
Accumulated depreciation and impairment	-	(332,185)	(313,959)	(134,215)	(708,456)	(1,488,815)
	<u>\$9,023</u>	<u>\$283,065</u>	<u>\$79,915</u>	<u>\$54,432</u>	<u>\$372,627</u>	<u>\$799,062</u>
<u>2019</u>						
At January 1	\$9,023	\$283,065	\$79,915	\$54,432	\$372,627	\$799,062
Additions	-	1,756	8,494	10,132	87,580	107,962
Transfer (Note)	-	15,195	-	59,205	-	74,400
Effect of change of consolidation unit	-	-	-	(336)	(2,843)	(3,179)
Depreciation charge	-	(24,329)	(34,756)	(14,819)	(228,759)	(302,663)
At September 30	<u>\$9,023</u>	<u>\$275,687</u>	<u>\$53,653</u>	<u>\$108,614</u>	<u>\$228,605</u>	<u>\$675,582</u>
At September 30, 2019						
Cost	\$9,023	\$632,201	\$402,368	\$249,325	\$1,159,529	\$2,452,446
Accumulated depreciation and impairment	-	(356,514)	(348,715)	(140,711)	(930,924)	(1,776,864)
	<u>\$9,023</u>	<u>\$275,687</u>	<u>\$53,653</u>	<u>\$108,614</u>	<u>\$228,605</u>	<u>\$675,582</u>

Note: Transferred from prepayments for equipment (shown as “other non-current assets”).

A. For the nine months ended September 30, 2020 and 2019 no interest expense was capitalized on property, plant and equipment in the Group.

B. The Group has no property, plant and equipment pledged to others.

(8) Leasing arrangements-lessee

A. The Group leases various assets including land, buildings and structures, business vehicles, printers. Rental contracts are typically made for periods of 2 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Short-term leases with a lease term of 12 months or less comprise business vehicles and staff dormitory.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
	Book value	Book value	Book value
Land	\$ 63,076	\$ 65,641	\$ 66,496
Buildings and structures	18,093	19,270	26,547
Business vehicles	785	470	903
Printers	464	986	1,160
	<u>\$ 82,418</u>	<u>\$ 86,367</u>	<u>\$ 95,106</u>

	Three months ended September 30,	
	2020	2019
	Depreciation charge	Depreciation charge
Land	\$ 855	\$ 855
Buildings and structures	1,736	1,941
Business vehicles	101	433
Printers	174	174
	<u>\$ 2,866</u>	<u>\$ 3,403</u>

	Nine months ended September 30	
	2020	2019
	Depreciation charge	Depreciation charge
Land	\$ 2,565	\$ 2,565
Buildings and structures	4,477	5,827
Business vehicles	504	1,299
Printers	522	522
	<u>\$ 8,068</u>	<u>\$ 10,213</u>

C. The information on profit and loss accounts relating to lease contracts is as follows:

	Three months ended September 30,	
	2020	2019
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	<u>\$ 285</u>	<u>\$ 370</u>
Expense on short-term lease contracts	<u>\$ 2,177</u>	<u>\$ 2,022</u>
	Nine months ended September 30,	
	2020	2019
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	<u>\$ 897</u>	<u>\$ 1,014</u>
Expense on short-term lease contracts	<u>\$ 6,502</u>	<u>\$ 6,272</u>

D. For nine months ended September 30, 2020 and 2019, the Group's total cash outflow for leases were \$15,094 and \$17,099, respectively.

(9) Investment property

	<u>Buildings and structures</u>
At January 1, 2020	
Cost	\$ 20,369
Accumulated depreciation and impairment	<u>( 1,698)</u>
	<u>\$ 18,671</u>
<u>2020</u>	
At January 1	\$ 18,671
Depreciation charge	<u>( 727)</u>
At September 30	<u>\$ 17,944</u>
At September 30, 2020	
Cost	\$ 20,369
Accumulated depreciation and impairment	<u>( 2,425)</u>
	<u>\$ 17,944</u>
	<u>Buildings and structures</u>
At January 1, 2019	
Cost	\$ 20,369
Accumulated depreciation and impairment	<u>( 728)</u>
	<u>\$ 19,641</u>
<u>2019</u>	
At January 1	\$ 19,641
Depreciation charge	<u>( 727)</u>
At September 30	<u>\$ 18,914</u>
At September 30, 2019	
Cost	\$ 20,369
Accumulated depreciation and impairment	<u>( 1,455)</u>
	<u>\$ 18,914</u>

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	Three months ended September 30,	
	2020	2019
Rental income from investment property	<u>\$ 584</u>	<u>\$ 588</u>
Direct operating expenses arising from the investment property that generated rental income during the period	<u>\$ 242</u>	<u>\$ 242</u>
	Nine months ended September 30,	
	2020	2019
Rental income from investment property	<u>\$ 1,864</u>	<u>\$ 1,848</u>
Direct operating expenses arising from the investment property that generated rental income during the period	<u>\$ 727</u>	<u>\$ 727</u>

B. The fair value of the investment property held by the Group as at September 30, 2020, December 31, 2019 and September 30, 2019 was \$11,097, \$10,538 and \$11,369, respectively, which was valued by income approach. Key assumptions are as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Rate of net return on capital (Note)	<u>12.34%</u>	<u>13.86%</u>	<u>12.39%</u>

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

C. For the nine months ended September 30, 2020 and 2019 no interest expense was capitalized on investment property in the Group.

D. The Group has no investment property pledged to others.

(10) Intangible assets

	Patents and Technical skill	Customer Relationship	Goodwill	Others	Total
At January 1, 2020					
Cost	\$ 34,478	\$ 11,000	\$ 80,758	\$ 203,852	\$ 330,088
Accumulated depreciation and impairment	( 25,556)	( 11,000)	( 37,104)	( 174,835)	( 248,495)
	<u>\$ 8,922</u>	<u>\$ -</u>	<u>\$ 43,654</u>	<u>\$ 29,017</u>	<u>\$ 81,593</u>
<u>2020</u>					
At January 1	\$ 8,922	\$ -	\$ 43,654	\$ 29,017	\$ 81,593
Additions	-	-	-	109,961	109,961
Amortization charge	( 3,824)	-	-	( 77,007)	( 80,831)
At September 30	<u>\$ 5,098</u>	<u>\$ -</u>	<u>\$ 43,654</u>	<u>\$ 61,971</u>	<u>\$ 110,723</u>
At September 30, 2020					
Cost	\$ 34,478	\$ 11,000	\$ 80,758	\$ 313,813	\$ 440,049
Accumulated depreciation and impairment	( 29,380)	( 11,000)	( 37,104)	( 251,842)	( 329,326)
	<u>\$ 5,098</u>	<u>\$ -</u>	<u>\$ 43,654</u>	<u>\$ 61,971</u>	<u>\$ 110,723</u>

	Patents and Technical skill	Customer Relationship	Goodwill	Others	Total
At January 1, 2019					
Cost	\$ 34,478	\$ 11,000	\$ 80,758	\$ 159,069	\$ 285,305
Accumulated depreciation and impairment	( 16,596)	( 9,473)	( 25,047)	( 100,214)	( 151,330)
	<u>\$ 17,882</u>	<u>\$ 1,527</u>	<u>\$ 55,711</u>	<u>\$ 58,855</u>	<u>\$ 133,975</u>
<u>2019</u>					
At January 1	\$ 17,882	\$ 1,527	\$ 55,711	\$ 58,855	\$ 133,975
Additions	-	-	-	43,626	43,626
Amortization charge	( 7,286)	( 1,527)	-	( 57,741)	( 66,554)
At September 30	<u>\$ 10,596</u>	<u>\$ -</u>	<u>\$ 55,711</u>	<u>\$ 44,740</u>	<u>\$ 111,047</u>
At September 30, 2019					
Cost	\$ 34,478	\$ 11,000	\$ 80,758	\$ 202,695	\$ 328,931
Accumulated depreciation and impairment	( 23,882)	( 11,000)	( 25,047)	( 157,955)	( 217,884)
	<u>\$ 10,596</u>	<u>\$ -</u>	<u>\$ 55,711</u>	<u>\$ 44,740</u>	<u>\$ 111,047</u>

A. Details of amortization on intangible assets are as follows:

	Three months ended September 30,	
	2020	2019
Operating costs	\$ 1,275	\$ 1,872
Selling expenses	19	61
Administrative expenses	273	186
Research and development expenses	<u>27,504</u>	<u>21,067</u>
	<u>\$ 29,071</u>	<u>\$ 23,186</u>
	Nine months ended September 30,	
	2020	2019
Operating costs	\$ 3,824	\$ 6,730
Selling expenses	129	1,783
Administrative expenses	614	555
Research and development expenses	<u>76,264</u>	<u>57,486</u>
	<u>\$ 80,831</u>	<u>\$ 66,554</u>

B. For the nine months ended September 30, 2020 and 2019 no interest expense was capitalized on intangible assets in the Group.

C. Impairment information about the intangible assets is provided in 6(11).

D. The Group has no intangible assets pledged to others.

(11) Impairment of non-financial assets

The goodwill is tested annually for impairment. The recoverable amount has been determined based on value-in-use calculations. The assumptions of evaluation of impairment change immaterial as at September 30, 2020. The evaluation of goodwill impairment is provided in 6(11). The goodwill is tested annually for impairment. The recoverable amount has been determined based on value-in-use calculations.

(12) Short-term borrowings

<u>Type of borrowings</u>	September 30,		
	2020	Interest rate range	Collateral
Bank borrowings			
Credit loans	<u>\$ 1,094,000</u>	0.88%~1.76%	None
<u>Type of borrowings</u>	December 31,		
	2019	Interest rate range	Collateral
Bank borrowings			
Credit loans	<u>\$ 274,000</u>	0.98%~1.90%	None

<u>Type of borrowings</u>	<u>September 30, 2019</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Credit loans	\$ <u>270,000</u>	1.00%~1.136%	None

Interest expense recognized in profit or loss amounted to \$2,378, \$1,278, \$5,023 and \$4,685 for the three months and nine months ended September 30, 2020 and 2019, respectively.

(13) Other payable

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Salary and bonus payables	\$ 396,181	\$ 295,252	\$ 324,520
Payable on employees and director remuneration	61,363	36,191	21,711
Payable on equipment	52,787	58,026	16,411
Others	<u>67,181</u>	<u>73,054</u>	<u>67,431</u>
	<u>\$ 577,512</u>	<u>\$ 462,523</u>	<u>\$ 430,073</u>

(14) Pensions

A.(a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Labor Standards Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.

(b) For the aforementioned pension plan, the Group recognized pension costs of \$136, \$136, \$405 and \$406 for the three months and nine months ended September 30, 2020 and 2019, respectively.

(c) Expected contributions to the defined benefit pension plans of the Group within one year from September 30, 2020 are \$158.

- B.(a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company’s subsidiaries, Eon Silicon Solutions, Inc. USA established a 401(K) plan based on the US Government’s National Tax Regulation 401(K), and local employees can allocate a certain amount of salary to the pension account each month within the upper limit; the Company may cooperate with the allocation according to its policy of rewarding or comforting employees.
- (c) The Company’s mainland China subsidiaries, Elite Semiconductor Microelectronics Technology (Shenzhen) Inc. and Elite Semiconductor Microelectronics (Shanghai) Technology Inc., have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (d) The pension costs under defined contribution pension plans of the Group for the three months and nine months ended September 30, 2020 and 2019, were \$7,976, \$7,887, \$23,897 and \$23,282, respectively.

(15) Share-based payment

- A. For the nine months ended September 30, 2020 and 2019, the Group’s share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting condition
Succeed to 2010 Eon Silicon Solution Inc.’s employee stock options	August 10, 2010, October 15, 2010 and January 13, 2011	4,000 thousand shares (Note 2)	10 years	Note 1
Succeed to 2013 Eon Silicon Solution Inc.’s employee stock options	<del>102.8.19</del> August <u>19,</u> <u>2013</u>	7,500 thousand shares (Note 2)	10 years	Note 1

Note 1: The accumulative proportion of the new shares that can be obtained after the two-year, three-year and four-year service expirations are 50%, 75% and 100%, respectively.

Note 2: The number of grants given by the Company to the Eon Silicon Solution Inc. employee stock option plan is the amount given on the original plan grant date. After the merger, Eon Silicon Solution Inc.'s 2010 and 2013 employee stock option plans have 219 thousand shares and 688 thousand shares in circulation.

Among the share-based payment arrangements above are settled by equity.

B. Details of the share-based payment arrangements are as follows:

Succeed to Eon Silicon Solution Inc.'s employee stock options:

	2020		2019	
	No. of options	Weighted-average exercise price (in dollars)	No. of options	Weighted-average exercise price (in dollars)
Options outstanding at January 1	543	\$ 59.2~303.4	621	\$ 62.3~319.0
Options forfeited	( 4)	-	( 78)	-
Options expired	( 12)	-	-	-
Options outstanding at September 30	<u>527</u>	\$ 57.6~241.2	<u>543</u>	\$ 59.2~303.4
Options exercisable at September 30	<u>527</u>		<u>543</u>	

C. No options exercised for the nine months ended September 30, 2020 and 2019, respectively.

D. As of September 30, 2020, December 31, 2019 and September 30, 2019, the range of exercise prices of stock options outstanding was \$57.6~\$241.2, \$59.2~\$303.4 and \$59.2~\$303.4 (in dollars), respectively; the weighted-average remaining contractual period was 2.89 years, 3.64 years and 3.89 years, respectively.

E. Expenses incurred on share-based payment transactions for the three months and nine months ended September 30, 2020 and 2019, were all \$0.

(16) Share capital

A. As of September 30, 2020, the Company's authorized capital was \$3,500,000, consisting of 350,000 thousand shares of ordinary stock (including 20,000 thousand shares reserved for employee stock options), and the paid-in capital was \$2,857,589 with a par value of \$10 (in dollars) per share.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	Shares: thousand shares	
	2020	2019
Shares outstanding at January 1	272,320	272,320
Subsidiary acquired parent company's shares is regarded as treasury shares transaction	( 715)	-
Shares outstanding at September 30	271,605	272,320
Treasury shares at the end of the period	<u>14,154</u>	<u>13,439</u>
Shares issued at September 30	<u>285,759</u>	<u>285,759</u>

## B. Treasury shares

The Company's shares held by the Company's subsidiary, Jie Young Investment Ltd., as of September 30, 2020, December 31, 2019, and September 30, 2019 due to the parent company's business strategy, were 14,154 thousand shares, 13,439 thousand shares and 13,439 thousand shares, with carrying amounts of \$347,942, \$328,048 and \$328,048, respectively; the average book value per share were \$24.58, \$24.41 and \$24.41, and the fair value per share were \$37.25, \$38.90 and \$32.95.

### (17) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	2020				
	Changes in				
	Treasury share transactions	ownership interests in subsidiaries	Employee stock options	Others	Total
At January 1	\$ 1,661	\$ 94,949	\$ 3,913	\$ 3,782	\$104,305
Recognition of effects from change in ownership interests in subsidiaries - cash dividends distribution from subsidiaries	-	1,146	-	-	1,146
Adjustment of capital reserve due to cash dividends that subsidiaries received from parent	-	5,925	-	-	5,925
Recognition of effects from change in ownership interests in subsidiaries - subsidiary acquired non-controlling interest	-	( 1,749)	-	-	( 1,749)
Expired cash dividends transferred to capital surplus	-	-	-	82	82
At September 30	<u>\$ 1,661</u>	<u>\$ 100,271</u>	<u>\$ 3,913</u>	<u>\$ 3,864</u>	<u>\$109,709</u>

	2019				
	Changes in				
	Treasury share	ownership interests in	Employee stock	Others	Total
	transactions	subsidiaries	options		
At January 1	\$ 1,661	\$ 49,710	\$ 3,913	\$ 3,788	\$ 59,072
Recognition of effects from change in ownership interests in subsidiaries - cash dividends distribution from subsidiaries	-	1,146	-	-	1,146
Adjustment of capital reserve due to change in interests in subsidiaries	-	35,475	-	-	35,475
Adjustment of capital reserve due to cash dividends that subsidiaries received from parent	-	8,438	-	-	8,438
Expired cash dividends transferred to capital surplus	-	-	-	39	39
Adjustment of payments of expired cash dividends	-	-	-	( 45)	( 45)
At September 30	<u>\$ 1,661</u>	<u>\$ 94,769</u>	<u>\$ 3,913</u>	<u>\$ 3,782</u>	<u>\$104,125</u>

(18) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall be appropriated in the following order:

- (a) Payment of all taxes and dues.
- (b) Offset against prior years' operating losses, if any.
- (c) Set aside 10% of remaining amount as legal reserve.
- (d) Setting aside a special reserve when necessary.
- (e) The remainder shall be stockholders' bonus, which will be appropriated in proportion or be retained shall be resolved by the stockholders at the stockholders' meeting.

B. Dividend policy

The Company is still in the growth stage, the appropriation of stockholders' bonus will be appropriated as cash, the remainder will be appropriated as shares when over 5%.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

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

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Order No. Financial-Supervisory-Securities-Corporate1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.

E. As approved by Board of Directors on March 18, 2019, the appropriations of 2018 earnings would be legal reserve \$70,651 and cash dividend \$428,638, constituting \$1.5(in dollars) per share. Aforementioned appropriations had been approved by stockholders' meeting on June 13, 2019.

F. As approved by Board of Directors on March 20, 2020, the appropriations of 2019 earnings would be legal reserve \$49,804 and cash dividend \$285,759, constituting \$1(in dollars) per share. Aforementioned appropriations had been approved by stockholders' meeting on June 15, 2020.

(19) Operating revenue

	<u>Three months ended September 30,</u>	
	2020	2019
Revenue from contracts with customers	<u>\$ 3,999,177</u>	<u>\$ 3,244,878</u>
	<u>Nine months ended September 30,</u>	
	2020	2019
Revenue from contracts with customers	<u>\$ 10,873,535</u>	<u>\$ 8,905,876</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time in the following geographical regions:

Three months ended September 30, 2020				
Integrated circuits	<u>\$ 1,650,530</u>	<u>\$ 2,280,266</u>	<u>\$ 68,381</u>	<u>\$ 3,999,177</u>
Three months ended September 30, 2019				
Integrated circuits	<u>\$ 1,421,073</u>	<u>\$ 1,778,806</u>	<u>\$ 44,999</u>	<u>\$ 3,244,878</u>

Nine months ended September 30, 2020	Domestic	Asia	Others	Total
Integrated circuits	<u>\$ 4,632,098</u>	<u>\$ 6,099,479</u>	<u>\$ 141,958</u>	<u>\$ 10,873,535</u>

Nine months ended September 30, 2019	Domestic	Asia	Others	Total
Integrated circuits	<u>\$ 3,825,997</u>	<u>\$ 4,930,691</u>	<u>\$ 149,188</u>	<u>\$ 8,905,876</u>

#### B. Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	September 30, 2020	December 31, 2019	September 30, 2019	January 1, 2019
Contract liabilities- advance sales receipts	<u>\$ 7,383</u>	<u>\$ 3,959</u>	<u>\$ 13,579</u>	<u>\$ 3,710</u>

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

	Three months ended September 30,	
	2020	2019
Contract liabilities-advance sales receipts	<u>\$ 10</u>	<u>\$ 29</u>
	Nine months ended September 30,	
	2020	2019
Contract liabilities-advance sales receipts	<u>\$ 3,884</u>	<u>\$ 3,526</u>

#### (20) Interest revenue

	Three months ended September 30,	
	2020	2019
Interest income from bank deposits	\$ 3,719	\$ 12,182
Interest income from financial assets at amortized cost	174	693
Other interest income	94	308
	<u>\$ 3,987</u>	<u>\$ 13,183</u>

	Nine months ended September 30,	
	2020	2019
Interest income from bank deposits	\$ 21,024	\$ 34,054
Interest income from financial assets at amortized cost	1,012	1,563
Other interest income	536	1,020
	<u>\$ 22,572</u>	<u>\$ 36,637</u>

(21) Other income

	Three months ended September 30,	
	2020	2019
Rent income	\$ 1,344	\$ 1,325
Dividend income	13,053	26,570
Other income, others	2,520	2,751
	<u>\$ 16,917</u>	<u>\$ 30,646</u>

	Nine months ended September 30,	
	2020	2019
Rent income	\$ 4,110	\$ 4,168
Dividend income	13,053	26,570
Other income, others	7,334	7,579
	<u>\$ 24,497</u>	<u>\$ 38,317</u>

(22) Other gains and losses

	Three months ended September 30,	
	2020	2019
Foreign exchange losses	(\$ 9,198)	(\$ 2,302)
Gains(Losses) on financial assets at fair value through profit or loss	14,592	( 32,980)
Gains arising from lease modifications	122	-
Miscellaneous disbursements	( 242)	( 243)
	<u>\$ 5,274</u>	<u>(\$ 35,525)</u>

	Nine months ended September 30,	
	2020	2019
Foreign exchange gains(losses)(\$	21,224)	\$ 28,498
Gains on financial assets at fair value through profit or loss	17,174	10,192
Gains arising from lease modifications	148	-
Miscellaneous disbursements	( 727)	( 728)
	<u>(\$ 4,629)</u>	<u>\$ 37,962</u>

(23) Financial costs

	Three months ended September 30,	
	2020	2019
Interest expense:		
Bank borrowings	\$ 2,378	\$ 1,278
Provisions for liabilities - unwinding of discount	353	324
Lease liability	<u>285</u>	<u>370</u>
Total of interest expense	<u>3,016</u>	<u>1,972</u>
Others	<u>240</u>	<u>261</u>
	<u>\$ 3,256</u>	<u>\$ 2,233</u>

	Nine months ended September 30,	
	2020	2019
Interest expense:		
Bank borrowings	\$ 5,023	\$ 4,685
Provisions for liabilities - unwinding of discount	1,059	969
Lease liability	<u>897</u>	<u>1,014</u>
Total of interest expense	<u>6,979</u>	<u>6,668</u>
Others	<u>484</u>	<u>785</u>
	<u>\$ 7,463</u>	<u>\$ 7,453</u>

(24) Expenses by nature

	Three months ended September 30,	
	2020	2019
Employee benefit expense	<u>\$ 287,988</u>	<u>\$ 236,294</u>
Depreciation charges on property, plant and equipment	<u>\$ 76,018</u>	<u>\$ 88,038</u>
Depreciation charges on right-of-use assets	<u>\$ 2,866</u>	<u>\$ 3,403</u>
Depreciation charges on investment property	<u>\$ 242</u>	<u>\$ 242</u>
Amortization charges on intangible assets	<u>\$ 29,071</u>	<u>\$ 23,186</u>

	Nine months ended September 30,	
	2020	2019
Employee benefit expense	<u>\$ 892,581</u>	<u>\$ 679,350</u>
Depreciation charges on property, plant and equipment	<u>\$ 227,353</u>	<u>\$ 302,663</u>
Depreciation charges on right-of-use assets	<u>\$ 8,068</u>	<u>\$ 10,213</u>
Depreciation charges on investment property	<u>\$ 727</u>	<u>\$ 727</u>
Amortization charges on intangible assets	<u>\$ 80,831</u>	<u>\$ 66,554</u>

(25) Employee benefit expense

	Three months ended September 30,	
	2020	2019
Wages and salaries	\$ 261,931	\$ 212,404
Labor and health insurance fees	11,489	11,339
Pension costs	8,112	8,023
Director remuneration	1,155	929
Other personnel expenses	<u>5,301</u>	<u>3,599</u>
	<u>\$ 287,988</u>	<u>\$ 236,294</u>

	Nine months ended September 30,	
	2020	2019
Wages and salaries	\$ 810,425	\$ 606,701
Labor and health insurance fees	35,889	35,184
Pension costs	24,302	23,688
Director remuneration	3,639	1,450
Other personnel expenses	18,326	12,327
	<u>\$ 892,581</u>	<u>\$ 679,350</u>

- A. In accordance with the Articles of Incorporation of the Company, the profit before income tax of the current year, before covering employees' compensation and directors' remuneration, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 5% for employees' compensation and 1% for directors' remuneration.
- B. For the three months and nine months ended September 30, 2020 and 2019, employees' compensation was accrued at \$14,769, \$5,280, \$51,136 and \$18,093, respectively; while directors' remuneration was accrued at \$2,954, \$1,055, \$10,227 and \$3,618, respectively. The aforementioned amounts were recognized in salary expenses.
- The employees' compensation and directors' remuneration were estimated and accrued based on 5% and 1% of distributable profit for the nine months ended September 30, 2020.
- C. The employees' compensation and directors' remuneration of 2019 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2019 financial statements
- D. Information about employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Three months ended September 30,	
	2020	2019
Current tax:		
Current tax on profits for the period	\$ 43,664	\$ 14,858
Total current tax	43,664	14,858
Deferred tax:		
Origination and reversal of temporary differences	( 1,576)	69
Income tax expense	\$ 42,088	\$ 14,927
	Nine months ended September 30,	
	2020	2019
Current tax:		
Current tax on profits for the period	\$ 139,434	\$ 35,943
Tax on undistributed surplus earnings	-	10,378
Prior year income tax (over) underestimation	( 4,596)	316
Total current tax	134,838	46,637
Deferred tax:		
Origination and reversal of temporary differences	( 386)	6,255
Income tax expense	\$ 134,452	\$ 52,892

(b) The income tax charge relating to components of other comprehensive income: None.

(c) The income tax charged to equity during the period: None.

B. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

(27) Earnings per share

	<u>Three months ended September 30,</u>		
	<u>2020</u>		
	<u>Amount after</u>	<u>Weighted average</u>	<u>Earnings per</u>
	<u>tax</u>	<u>number of ordinary</u>	<u>share</u>
		<u>shares outstanding</u>	<u>(in dollars)</u>
		<u>(share in thousands)</u>	
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 237,813</u>	279,834	<u>0.85</u>
Assumed conversion of all dilutive potential ordinary shares (Note)			
Employees' compensation		<u>1,373</u>	
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 237,813</u>	<u>281,207</u>	<u>0.85</u>

  

	<u>Three months ended September 30,</u>		
	<u>2019</u>		
	<u>Amount</u>	<u>Weighted average</u>	<u>Earnings per</u>
	<u>after</u>	<u>number of ordinary</u>	<u>share</u>
	<u>tax</u>	<u>shares outstanding</u>	<u>(in dollars)</u>
		<u>(share in thousands)</u>	
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 83,329</u>	280,133	<u>0.30</u>
Assumed conversion of all dilutive potential ordinary shares (Note)			
Employees' compensation		<u>549</u>	
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 83,329</u>	<u>280,682</u>	<u>0.30</u>

	Nine months ended September 30,		
	2020		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 829,160</u>	279,934	<u>2.96</u>
Assumed conversion of all dilutive potential ordinary shares (Note)			
Employees' compensation		<u>1,738</u>	
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 829,160</u>	<u>281,672</u>	<u>2.94</u>

	Nine months ended September 30,		
	2019		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 287,416</u>	280,133	<u>1.03</u>
Assumed conversion of all dilutive potential ordinary shares (Note)			
Employees' compensation		<u>950</u>	
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 287,416</u>	<u>281,083</u>	<u>1.02</u>

Note: The employee stock options not calculate for three months and nine months ended September 30, 2020 and 2019 due to the effect of anti-dilution.

(28) Transactions with non-controlling interest

A. On March 30, 2020 and April 28, 2020, the Group acquired an additional shares of its subsidiary-Elite Silicon Technology Inc. for a total cash consideration of \$1,752 and \$128. The carrying amount of non-controlling interest in Elite Silicon Technology Inc. was \$119 and \$12 at the acquisition date. This transaction resulted in a decrease in the equity attributable to owners of the parent by \$1,633 and \$116.

The effect of changes in interests in Elite Silicon Technology Inc. on the equity attributable to owners of the parent for the nine months ended September 30, 2020 and 2019 is shown below:

	<u>2020</u>	
Carrying amount of non-controlling interest acquired	\$	131
Consideration paid to non-controlling interest	(	<u>1,880)</u>
Capital surplus - difference between proceeds on actual acquisition of or disposal of equity interest in a subsidiary and its carrying amount	(\$	<u>1,749)</u>

B. Subsidiary Canyon Semiconductor Inc. of the Group increased its capital by issuing new shares on March 4, 2019. The Group did not acquire shares proportionally to its interest. As a result, the Group decreased its share interest by 39.74%. The transaction decreased non-controlling interest by \$2,365 and increased the equity attributable to owners of parent by \$35,475.

(29) Supplemental cash flow information

A. Investing activities with partial cash payments:

	<u>Nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Purchase of property, plant and equipment (including amount of transfer)	\$ 262,231	\$ 182,362
Add: Opening balance of payable on equipment	58,026	41,100
Less: Ending balance of payable on equipment	(52,787)	(16,411)
Cash paid during the period	<u>\$ 267,470</u>	<u>\$ 207,051</u>

B. Changes in liabilities from financing activities:

	Short-term borrowings	Short-term notes and bills payable	Lease liabilities	Guarantee deposits received	Liabilities from financing activities-gross
At January 1, 2020	\$ 274,000	\$ -	\$ 86,887	\$ 9,871	\$ 370,758
Changes in cash flow from financing activities	820,000	100,346	( 7,695)	-	912,651
Interest paid	-	-	( 897)	-	( 897)
Interest expense	-	-	897	-	897
Changes in other non-cash items	-( 476)		7,906	-	7,430
Changes from lease modifications	-	-	( 3,933)	-	( 3,933)
At September 30,2020	<u>\$1,094,000</u>	<u>\$ 99,870</u>	<u>\$ 83,165</u>	<u>\$ 9,871</u>	<u>\$ 1,286,906</u>

  

	Short-term borrowings	Short-term notes and bills payable	Lease liabilities	Guarantee deposits received	Liabilities from financing activities-gross
At January 1, 2019	\$ 370,000	\$ 99,932	\$ 105,090	\$ 9,601	\$ 584,623
Changes in cash flow from financing activities	( 100,000)	444	( 9,813)	270	( 109,099)
Interest paid	-	-	( 1,014)	-	( 1,014)
Interest expense	-	-	1,014	-	1,014
Changes in other non-cash items	-( 516)		-	-	( 516)
Impact of changes in foreign exchange rate	-	-	229	-	229
At September 30,2019	<u>\$ 270,000</u>	<u>\$ 99,860</u>	<u>\$ 95,506</u>	<u>\$ 9,871</u>	<u>\$ 475,237</u>

7. Related Party Transactions

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Arima Lasers Corporation	The Company's subsidiary is this company's director
Canyon Semiconductor Inc.	Investee indirectly accounted for under equity method

(2) Key management compensation

	<u>Three months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Salaries and other short-term employee benefits	\$ 12,897	\$ 9,237
Post-employment benefits	108	108
Total	<u>\$ 13,005</u>	<u>\$ 9,345</u>

	Nine months ended September 30,	
	2020	2019
Salaries and other short-term employee benefits	\$ 42,001	\$ 26,242
Post-employment benefits	324	324
Total	<u>\$ 42,325</u>	<u>\$ 26,566</u>

8. Pledged Assets

The Group's assets pledged as collateral are as follows:

Assets item	Book value			Purpose
	September 30, 2020	December 31, 2019	September 30, 2019	
Time deposits (shown as "other current assets")	<u>\$ 3,969</u>	<u>\$ 3,969</u>	<u>\$ 3,969</u>	Guarantee deposits for lease of land

9. Significant Contingent Liabilities and Unrecognized Contract Commitments

Unused letters of credit issued

The Group unused letters of credit issued due to purchases is as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Unused letters of credit issued	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 863</u>

10. Significant Disaster Loss

None.

11. Significant Events after the Balance Sheet Date

None.

12. Others

(1) Capital management

Considering the industrial characteristics, future development, and changes in the environment, the Group plans the demand of working capital, research and development expenses and dividends to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders, to take care of the benefit of other related parties, and to maintain an optimal capital structure, so as to promote shareholder value in the long-term.

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

The gearing ratios at September 30, 2020, December 31, 2019 and September 30, 2019 were as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Total assets	\$ 12,442,059	\$ 10,480,320	\$ 10,095,470
Total liabilities	( 4,556,243)	( 3,139,541)	( 2,961,861)
Total equity	<u>\$ 7,885,816</u>	<u>\$ 7,340,779</u>	<u>\$ 7,133,609</u>
Gearing ratio	<u>58%</u>	<u>43%</u>	<u>41%</u>

(2) Financial instruments

A. Financial instruments by category

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial assets</u>			
Financial assets mandatorily measured at fair value through profit or loss	<u>\$ 268,643</u>	<u>\$ 252,593</u>	<u>\$ 275,802</u>
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	<u>\$ 69,278</u>	<u>\$ 50,776</u>	<u>\$ 52,802</u>
Financial assets at amortized cost			
Cash and cash equivalents	\$ 2,265,219	\$ 2,757,003	\$ 2,510,404
Financial assets at amortized cost - current	139,680	140,906	208,199
Notes receivable	232	34	-
Accounts receivable	1,712,482	1,256,938	1,523,899
Other receivables	95,556	82,741	53,027
Time deposits (shown as "other current assets")	3,969	3,969	3,969
Guarantee deposits paid (shown as "other non-current assets")	<u>5,392</u>	<u>6,261</u>	<u>6,277</u>
	<u>\$ 4,222,530</u>	<u>\$ 4,247,852</u>	<u>\$ 4,305,775</u>

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial liabilities</u>			
Short-term borrowings	\$ 1,094,000	\$ 274,000	\$ 270,000
Short-term notes and bills payable	99,870	-	99,860
Notes payable	3,938	1,981	3,773
Accounts payable	2,521,962	2,225,909	1,972,998
Other accounts payable	577,512	462,523	430,073
Guarantee deposits received (shown as “other non-current liabilities”)	<u>9,871</u>	<u>9,871</u>	<u>9,871</u>
	<u>\$ 4,307,153</u>	<u>\$ 2,974,284</u>	<u>\$ 2,786,575</u>
Lease liability	<u>\$ 83,165</u>	<u>\$ 86,887</u>	<u>\$ 95,506</u>

#### B. Financial risk management policies

- (a) The Group adopt comprehensive system of risk management and control to identify, measure and control all categories of risk, including market risk, credit risk, liquidity risk, and risk of cash flow, to make sure management is able to control and measure market risk, credit risk, liquidity risk, and risk of cash flow effectively.
- (b) In order to control all management objectives of market risk effectively, achieve optimal level of risk, maintain appropriate level of liquidity and collectively manage all market risks, the Group will take factors such as consideration for the overall economic environment, status of competition and market value risks.

#### C. Significant financial risks and degrees of financial risks

##### (a) Market risk

##### Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the various currency, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. The companies adopt forward foreign exchange contracts through the Group treasury to manage the foreign exchange risk from future commercial transactions and recognized assets and liabilities. The foreign exchange risk will exist when future commercial transactions and recognized assets and liabilities use the currency different from the functional currency of the companies.



<b>(Foreign currency: functional currency)</b>	September 30, 2019		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD in thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 124,148	31.040	\$ 3,853,554
RMB:NTD	48,655	4.350	211,649
JPY:NTD	7,246	0.2878	2,085
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 36,008	31.040	\$ 1,117,688

- v. The total exchange gain (loss), including realized and unrealized, arising from significant foreign exchange variation on the monetary items held by the Group for the three months and nine months ended September 30, 2020 and 2019, amounted to (\$9,198), (\$2,302), (\$21,224) and \$28,498, respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

<b>(Foreign currency: functional currency)</b>	Nine months ended September, 2020		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 31,956	\$ -
RMB:NTD	1%	7,983	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 16,219)	\$ -

<b>(Foreign currency: functional currency)</b>	Nine months ended September, 2019		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 38,536	\$ -
RMB:NTD	1%	2,116	-
JPY:NTD	1%	21	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 11,177)	\$ -

#### Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- ii. The Group's investments in equity securities comprise shares and open-end funds issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 10% with all other variables held constant, post-tax profit for the nine months ended September 30, 2020 and 2019 would have increased/decreased by \$26,864 and \$27,580, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$6,928 and \$5,280, respectively, as a result of other comprehensive income classified as equity investment at fair value through other comprehensive income.

#### Cash flow and fair value Interest rate risk

The Group's main interest rate risk arises from short-term borrowings and short-term notes and bills payable. Borrowings with floating rates expose the Group to cash flow interest rate risk, but the majority of risk offset by cash and cash equivalents with floating rates. Borrowings with fixed rates expose the Group to fair value interest rate risk. The Group doesn't have significant risk of change of interest rate due to borrowings with floating rates are all shorter than one year.

(b)Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of financial instruments stated at amortized cost and debt instruments at fair value through profit or loss.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only these with high rating are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored.
- iii. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:  
If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
  - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
  - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
  - (iii) Default or delinquency in interest or principal repayments;
  - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vi. The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.
- vii. The financial assets at amortized cost including time deposits, repurchase bonds and restricted time deposits. The banks are with high rating and don't past due before. In addition to the above, the whole economic environment doesn't change significant, so the risk of credit risk is low and the effect to financial statement is insignificant.

- viii. The information about ageing analysis and collaterals of accounts receivable is provide in Note6(4). The Group request significant clients provide collaterals and other right of guarantee, therefore, the Group classifies customer’s accounts receivable in accordance with the nature of collaterals. The applies the simplified approach using loss rate methodology to estimate expected credit loss. In summary, the allowance for losses which the Group should recognize is minor at September 30, 2020, December 31, 2019 and September 30, 2019.
- ix. Movements in relation to the Group applying the modified approach to provide loss allowance for accounts receivable is as follows:

	2020	2019
	Account receivable	
At January 1	\$ 14,295	\$ 4,289
Provision for impairment	-	10,006
Reversal of impairment	( 1,839)	-
At September 30	\$ 12,456	\$ 14,295

(c)Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management should invest surplus cash in interest bearing current accounts, time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.
- iii. The table below analyses the Group’s non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for nonderivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

September 30, 2020	Less than 1 year	Between 1 and 5 years	Over 5 years
Short-term borrowings	\$ 1,094,000	\$ -	\$ -
Short-term notes and bills payable	100,000	-	-
Notes payable	3,938	-	-
Accounts payable	2,521,962	-	-
Other payables	577,512	-	-
Lease liability	11,689	27,942	53,628
Guarantee deposits received	-	-	9,871

Derivative financial liabilities: None.

Non-derivative financial liabilities:

December 31, 2019	Less than 1 year	Between 1 and 5 years	Over 5 years
Short-term borrowings	\$ 274,000	\$ -	\$ -
Notes payable	1,981	-	-
Accounts payable	2,225,909	-	-
Other payables	462,523	-	-
Lease liability	12,685	28,440	56,605
Guarantee deposits received	-	-	9,871

Derivative financial liabilities: None.

Non-derivative financial liabilities:

September 30, 2019	Less than 1 year	Between 1 and 5 years	Over 5 years
Short-term borrowings	\$ 270,000	\$ -	\$ -
Short-term notes and bills payable	100,000	-	-
Notes payable	3,773	-	-
Accounts payable	1,972,998	-	-
Other payables	430,073	-	-
Lease liability	13,601	35,919	57,597

Derivative financial liabilities: None.

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks, beneficiary certificates and debt securities is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Fair value information of investment property at cost is provided in Note 6(9).

C. Financial instruments not measured at fair value of the Group including cash and cash equivalents, time deposit (over 3 months), notes receivable, accounts receivable, other receivables, guarantee deposits paid, short-term borrowings, short-term notes and bills payable, notes payable, accounts payable and other payables, lease liabilities (current and non-current) and guarantee deposits received are approximate to their fair values.

D. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

(a) The related information of natures of the assets and liabilities is as follows:

September 30, 2020	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 85,669	\$ 2,839	\$ 43,477	\$131,985
Beneficiary certificates	87,758	-	-	87,758
Debt securities	48,900	-	-	48,900
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	<u>69,278</u>	<u>69,278</u>
	<u>\$222,327</u>	<u>\$ 2,839</u>	<u>\$112,755</u>	<u>\$337,921</u>
Financial liabilities: None.				

September 31, 2019	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 81,109	\$ 2,217	\$ 35,177	\$118,503
Beneficiary certificates	84,404	-	-	84,404
Debt securities	49,686	-	-	49,686
Financial assets at fair value through other comprehensive income				
Equity securities	<u>-</u>	<u>-</u>	<u>50,776</u>	<u>50,776</u>
	<u>\$215,199</u>	<u>\$ 2,217</u>	<u>\$ 85,953</u>	<u>\$303,369</u>
Financial liabilities: None.				

September 30, 2019	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$109,040	\$ 1,971	\$ 31,436	\$142,447
Beneficiary certificates	83,983	-	-	83,983
Debt securities	49,372	-	-	49,372
Financial assets at fair value through other comprehensive income				
Equity securities	<u>-</u>	<u>-</u>	<u>52,802</u>	<u>52,802</u>
	<u>\$242,395</u>	<u>\$ 1,971</u>	<u>\$ 84,238</u>	<u>\$328,604</u>
Financial liabilities: None.				

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	Listed shares	Open-end fund
Market quoted price	Closing price	Net asset value

- ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.
  - iii. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- E. For the nine months ended September 30, 2020 and 2019, there was no transfer between Level 1 and Level 2.
- F. The following chart is the movement of Level 3 for the nine months ended September 30, 2020 and 2019:

	Equity securities	
	2020	2019
At January 1	\$ 85,953	\$ 66,115
Acquired in the period	-	15,150
Valuation adjustment	26,802	2,973
At September 30	\$ 112,755	\$ 84,238

- G. Accounting segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at September 30, 2020	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 28,327	Market - comparable companies	Discount for lack of marketability	30%	the higher the discount for lack of marketability, the lower the fair value
Unlisted shares	69,278	Market - comparable companies	Discount for lack of marketability	40%	the higher the discount for lack of marketability, the lower the fair value
Unlisted shares	15,150	Most recent deal price	Not applicable	Not applicable	Not applicable

	Fair value at December 31, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 20,027	Market - comparable companies	Discount for lack of marketability	30%	the higher the discount for lack of marketability, the lower the fair value
Unlisted shares	50,776	Market - comparable companies	Discount for lack of marketability	40%	the higher the discount for lack of marketability, the lower the fair value
Unlisted shares	15,150	Most recent deal price	Not applicable	Not applicable	Not applicable

	Fair value at September 30, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 16,286	Market - comparable companies	Discount for lack of marketability	30%	the higher the discount for lack of marketability, the lower the fair value
Unlisted shares	52,802	Market - comparable companies	Discount for lack of marketability	40%	the higher the discount for lack of marketability, the lower the fair value
Unlisted shares	15,150	Most recent deal price	Not applicable	Not applicable	Not applicable

I. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

		September 30, 2020			
				Recognized in profit or loss	Recognized in other comprehensive income
		Input	Change	Favorable change	Unfavorable change
Financial assets	Discount for				
Equity instrument	lack of		±10%		
	marketability			<u>\$ 1,214</u>	<u>(\$ 1,214)</u>
				<u>\$ 4,618</u>	<u>(\$ 4,618)</u>

		December 31, 2019			
				Recognized in profit or loss	Recognized in other comprehensive income
		Input	Change	Favorable change	Unfavorable change
Financial assets	Discount for				
Equity instrument	lack of		±10%		
	marketability			<u>\$ 858</u>	<u>(\$ 858)</u>
				<u>\$ 3,384</u>	<u>(\$ 3,384)</u>

		September 30, 2019			
				Recognized in profit or loss	Recognized in other comprehensive income
		Input	Change	Favorable change	Unfavorable change
Financial assets	Discount for				
Equity instrument	lack of		±10%		
	marketability			<u>\$ 2,458</u>	<u>(\$ 2,458)</u>
				<u>\$ -</u>	<u>\$ -</u>

(4) Others

As of the reported date, the Company has assessed that COVID-19 has no adverse impact on the Company's overall operating activities and financial statements. However, the Company will continue to pay attention to the development of the COVID-19 and its impact on the overall economic environment.

### 13. Supplementary Disclosures

#### (1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 2.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 3.

#### (3) Information on investments in Mainland China

- A. Basic information: Please refer to table 4.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

#### (4) Major shareholders information

As of September 30, 2020, the Company did not have any shareholders with a shareholding ratio more than 5%.

#### 14. Operating Segment Information

##### (1) General information

The Group operates business only in a single industry. The chief operating decision-maker who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

##### (2) Segment information

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

	<u>Three months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Revenue from external customers	<u>\$ 3,999,177</u>	<u>\$ 3,244,878</u>
Segment income before income tax	<u>\$ 288,127</u>	<u>\$ 109,252</u>

	<u>Nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Revenue from external customers	<u>\$ 10,873,535</u>	<u>\$ 8,905,876</u>
Segment income before income tax	<u>\$ 971,763</u>	<u>\$ 349,955</u>

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Segment assets	<u>\$ 12,442,059</u>	<u>\$ 10,095,470</u>
Segment liabilities	<u>\$ 4,556,243</u>	<u>\$ 2,961,861</u>

##### (3) Reconciliation for segment income (loss): None.