

**Elite Semiconductor Microelectronics Technology
and its Subsidiaries**

**Consolidated Financial Statements and
Independent Auditors' Report**

**for the Six-Month Periods Ended June 30,
2020 and 2019**

(Stock No: 3006)

(English Translation of a Report Originally Issued in Chinese)

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Elite Semiconductor Microelectronics Technology Inc. and its Subsidiaries
Consolidated Financial Statements and Independent Auditors' Report for the
Six-Month Periods Ended June 30, 2020 and 2019

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(English Translation of a Report Originally Issued in Chinese)

Independent Auditors' Report
(CONSOLIDATED FINANCIAL STATEMENT)

(2020) Finance-Audit-Letter No.20001273

To 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 of June 30, 2020 and 2019, and the related consolidated statements of comprehensive income of the three-month and six-month periods ended June 30, 2020 and 2019, as well as the changes in equity and cash flows for the six-months periods ended June 30, 2020 and 2019, 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 34 - Interim Financial Reporting endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standard 65 - Review of Financial Information Performed by the Independent Auditor of the Entity. A review of the consolidated financial statements 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 conducted in accordance with the generally accepted auditing standards 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 stated in Note IV (III) and VI (VI), the consolidated financial statements included the financial statements of certain non-significant subsidiaries and equity-accounted investee companies which were not reviewed by independent auditors. These financial statements reflected the total assets amounting to NT\$723,816 thousand and NT\$765,931 thousand, constituting 6.0% and 7.7% of consolidated total assets; the total liabilities amounting to NT\$182,631 thousand and NT\$102,021 thousand, constituting 4.2% and 3.4% of consolidated total liabilities as of June 30, 2020 and 2019, respectively; the total comprehensive income (loss) amounting to NT\$(24,772) thousand, NT\$(34,015) thousand, NT\$(32,017) thousand and NT\$(47,421) thousand, constituting (9.1%), (36.0%), (5.2%) and (25.1%) of the consolidated total comprehensive income (loss) from April 1 to June 30, 2020 and 2019 and January 1 to June 30, 2020 and 2019.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity-accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2020 and 2019, and of its consolidated financial performance and its consolidation cash flows for the three-month and six-month periods ended June 30, 2020 and 2019, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and ISAs 34 - Interim Financial Reporting endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Ya Huei Cheng

Danie Lee

Pricewaterhouse Coopers , Taiwan

August 11, 2020

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Microelectronics Technology Inc. and its Subsidiaries

Consolidated Balance Sheets

As of June 30, 2020, December 31, 2019 and June 30, 2019

(The Consolidated Balance Sheet on June 30, 2020 and 2019 were reviewed only,
not audited in accordance with the generally accepted auditing standards in the Republic of China)

Unit: NT\$ thousand

Assets	Note	June 30, 2020		December 31, 2019		June 30, 2019		
		Amount	%	Amount	%	Amount	%	
Current assets								
1100	Cash and cash equivalents	VI (I)	\$ 2,442,265	20	\$ 2,757,003	26	\$ 2,159,325	22
1110	Financial assets at fair value through profit or loss - current	VI (II)	254,050	2	252,593	3	349,546	4
1136	Financial assets measured at cost after amortization - current		82,964	1	140,906	1	177,274	2
1150	Net notes receivable		69	-	34	-	-	-
1170	Net accounts receivable	VI (IV)	1,360,617	11	1,256,938	12	1,403,394	14
1200	Other receivables		83,178	1	82,741	1	44,560	-
130X	Inventories	VI (V)	6,650,496	55	4,972,552	48	4,780,734	48
1410	Prepayments		87,255	1	27,444	-	26,534	-
1470	Other current assets	VIII	4,779	-	6,866	-	4,044	-
11XX	Total current assets		<u>10,965,673</u>	<u>91</u>	<u>9,497,077</u>	<u>91</u>	<u>8,945,411</u>	<u>90</u>
Noncurrent assets								
1517	Financial assets at fair value through other comprehensive income - noncurrent	VI (III)	69,748	1	50,776	-	45,456	1
1550	Investment accounted for using equity method	VI (VI)	31,546	-	33,210	-	39,015	-
1600	Property, plant and equipment	VI (VII)	677,746	6	696,328	7	707,938	7
1755	Right-of-use assets	VI (VIII)	76,938	1	86,367	1	98,523	1
1760	Net investment property	VI (IX)	18,186	-	18,671	-	19,156	-
1780	Intangible assets	VI (X)	125,747	1	81,593	1	107,775	1
1840	Deferred income tax assets		3,616	-	4,174	-	5,090	-
1900	Other noncurrent assets		35,307	-	12,124	-	18,020	-
15XX	Total noncurrent assets		<u>1,038,834</u>	<u>9</u>	<u>983,243</u>	<u>9</u>	<u>1,040,973</u>	<u>10</u>
1XXX	Total assets		<u>\$ 12,004,507</u>	<u>100</u>	<u>\$ 10,480,320</u>	<u>100</u>	<u>\$ 9,986,384</u>	<u>100</u>

(Continued)

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Microelectronics Technology Inc. and its Subsidiaries

Consolidated Balance Sheets

As of June 30, 2020, December 31, 2019 and June 30, 2019

(The Consolidated Balance Sheet on June 30, 2020 and 2019 were reviewed only,
not audited in accordance with the generally accepted auditing standards in the Republic of China)

Unit: NT\$ thousand

Liabilities and equity	Note	June 30, 2020		December 31, 2019		June 30, 2019		
		Amount	%	Amount	%	Amount	%	
Current liabilities								
2100	Short-term borrowings	VI (XII)	\$ 564,000	5	\$ 274,000	3	\$ 270,000	3
2110	Short-term notes and bills payable		99,927	1	-	-	99,937	1
2130	Contract liabilities - current	VI (XIX)	11,530	-	3,959	-	13,263	-
2150	Notes payable		5,716	-	1,981	-	4,133	-
2170	Accounts payable		2,562,588	21	2,225,909	21	1,460,700	15
2200	Other payables	VI (XIII)	920,034	7	462,523	5	936,802	10
2230	Current tax liability		84,238	1	40,046	-	32,437	-
2280	Lease liabilities - current		8,884	-	11,447	-	13,879	-
2300	Other current liabilities		6,150	-	6,080	-	6,569	-
21XX	Total of current liabilities		<u>4,263,067</u>	<u>35</u>	<u>3,025,945</u>	<u>29</u>	<u>2,837,720</u>	<u>29</u>
Noncurrent liabilities								
2550	Liability reserve - noncurrent		15,789	-	15,083	-	14,437	-
2570	Deferred tax liabilities		5,363	-	4,731	-	7,180	-
2580	Lease liabilities - noncurrent		68,798	1	75,440	1	84,879	1
2600	Other noncurrent liabilities		17,167	-	18,342	-	18,791	-
25XX	Total noncurrent liabilities		<u>107,117</u>	<u>1</u>	<u>113,596</u>	<u>1</u>	<u>125,287</u>	<u>1</u>
2XXX	Total liabilities		<u>4,370,184</u>	<u>36</u>	<u>3,139,541</u>	<u>30</u>	<u>2,963,007</u>	<u>30</u>
Equity attributable to owners of the parent company								
	Share capital	VI (XVI)						
3110	Common stock		2,857,589	24	2,857,589	27	2,857,589	28
	Capital surplus	VI (XVII)						
3200	Capital surplus		103,784	1	104,305	1	95,732	1
	Retained earnings	VI (XVIII)						
3310	Legal reserve		1,409,039	12	1,359,235	13	1,359,235	13
3320	Special reserve		8,524	-	-	-	-	-
3350	Undistributed earnings		3,533,436	29	3,286,176	31	2,992,222	30
	Other equities							
3400	Other equities		10,449	-	(8,524)	-	(13,844)	-
3500	Treasury stock	VI (XVI)	(145,649)	(1)	(137,321)	(1)	(137,321)	(1)
31XX	Total equity attributable to owners of the parent company		<u>7,777,172</u>	<u>65</u>	<u>7,461,460</u>	<u>71</u>	<u>7,153,613</u>	<u>71</u>
36XX	Non-controlling interest		<u>(142,849)</u>	<u>(1)</u>	<u>(120,681)</u>	<u>(1)</u>	<u>(130,236)</u>	<u>(1)</u>
3XXX	Total equity		<u>7,634,323</u>	<u>64</u>	<u>7,340,779</u>	<u>70</u>	<u>7,023,377</u>	<u>70</u>
	Significant Contingent Liabilities and Unrecognized Contractual Commitments	IX						
3X2X	Total liabilities and equity		<u>\$ 12,004,507</u>	<u>100</u>	<u>\$ 10,480,320</u>	<u>100</u>	<u>\$ 9,986,384</u>	<u>100</u>

The notes to the consolidated financial statements are part of the consolidated financial statements and should be read together.

Chairman: Hsing-Hai Chen

Manager: Ming-Chien Chang

Accounting Manager: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Microelectronics Technology Inc. and its SubsidiariesConsolidated Statements of Comprehensive Income

For the six months ended June 30, 2020 and 2019

(Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards in the Republic of China)

Unit: NT\$ thousand

(EPS in NT\$)

	Items	Note	April 1 to June 30,		April 1 to June 30,		January 1 to June		January 1 to June	
			2020		2019		30, 2020		30, 2019	
			Amount	%	Amount	%	Amount	%	Amount	%
4000	Operating income	VI (XIX)	\$ 3,210,628	100	\$ 3,036,633	100	\$ 6,874,358	100	\$ 5,660,998	100
5000	Operating costs	VI (V) (XXIV) (XXV)	(2,504,355)	(78)	(2,642,577)	(87)	(5,460,693)	(79)	(4,928,958)	(87)
5950	Net operating gross profit		<u>706,273</u>	<u>22</u>	<u>394,056</u>	<u>13</u>	<u>1,413,665</u>	<u>21</u>	<u>732,040</u>	<u>13</u>
	Operating expenses	VI (XXIV) (XXV)								
6100	Selling expenses		(63,042)	(2)	(58,095)	(2)	(126,421)	(2)	(111,323)	(2)
6200	Administrative expenses		(79,435)	(3)	(59,943)	(2)	(157,843)	(2)	(115,558)	(2)
6300	Research and development expenses		(228,070)	(7)	(180,886)	(6)	(456,156)	(7)	(349,019)	(6)
6450	Expected credit impairment loss	XII (II)	-	-	-	-	-	-	(10,006)	(1)
6000	Total operating expenses		<u>(370,547)</u>	<u>(12)</u>	<u>(298,924)</u>	<u>(10)</u>	<u>(740,420)</u>	<u>(11)</u>	<u>(585,906)</u>	<u>(11)</u>
6900	Operating income		<u>335,726</u>	<u>10</u>	<u>95,132</u>	<u>3</u>	<u>673,245</u>	<u>10</u>	<u>146,134</u>	<u>2</u>
	Non-operating revenues and expenses									
7100	Interest income	VI (XX)	7,437	-	12,743	-	18,585	-	23,454	1
7010	Other revenue	VI (XXI)	5,022	-	3,453	-	7,580	-	7,671	-
7020	Other gains or losses	VI (XXII)	(16,047)	-	26,197	1	(9,903)	-	73,487	1
7050	Financial costs	VI (XXIII)	(2,110)	-	(2,453)	-	(4,207)	-	(5,220)	-
7060	Share of profit (loss) of associates and joint ventures accounted for under equity method	VI (VI)	763	-	(1,727)	-	(1,664)	-	(4,823)	-
7000	Total non-operating revenues and expenses		<u>(4,935)</u>	<u>-</u>	<u>38,213</u>	<u>1</u>	<u>10,391</u>	<u>-</u>	<u>94,569</u>	<u>2</u>
7900	Profit before tax		<u>330,791</u>	<u>10</u>	<u>133,345</u>	<u>4</u>	<u>683,636</u>	<u>10</u>	<u>240,703</u>	<u>4</u>
7950	Income tax expenses	VI (XXVI)	(51,133)	(2)	(26,084)	(1)	(92,364)	(1)	(37,965)	(1)
8200	Net profit of current period		<u>\$ 279,658</u>	<u>8</u>	<u>\$ 107,261</u>	<u>3</u>	<u>\$ 591,272</u>	<u>9</u>	<u>\$ 202,738</u>	<u>3</u>
	Other comprehensive income - net									
	Items not re-classified to profit or loss									
8316	Unrealized gain (loss) on valuation of equity instruments measured at fair value through other comprehensive income	VI (III)	(\$ 6,967)	-	(\$ 12,751)	-	\$ 18,973	-	(\$ 13,844)	-
8300	Other comprehensive income - net		<u>(\$ 6,967)</u>	<u>-</u>	<u>(\$ 12,751)</u>	<u>-</u>	<u>\$ 18,973</u>	<u>-</u>	<u>(\$ 13,844)</u>	<u>-</u>
8500	Total comprehensive income of current period		<u>\$ 272,691</u>	<u>8</u>	<u>\$ 94,510</u>	<u>3</u>	<u>\$ 610,245</u>	<u>9</u>	<u>\$ 188,894</u>	<u>3</u>
	Net profit (loss) attributable to:									
8610	Owners of the parent company		<u>\$ 279,681</u>	<u>9</u>	<u>\$ 108,084</u>	<u>4</u>	<u>\$ 591,347</u>	<u>9</u>	<u>\$ 204,087</u>	<u>3</u>
8620	Non-controlling interest		<u>(\$ 23)</u>	<u>-</u>	<u>(\$ 823)</u>	<u>-</u>	<u>(\$ 75)</u>	<u>-</u>	<u>(\$ 1,349)</u>	<u>-</u>
	Total comprehensive income attributable to:									
8710	Owners of the parent company		<u>\$ 272,714</u>	<u>8</u>	<u>\$ 95,333</u>	<u>3</u>	<u>\$ 610,320</u>	<u>9</u>	<u>\$ 190,243</u>	<u>3</u>
8720	Non-controlling interest		<u>(\$ 23)</u>	<u>-</u>	<u>(\$ 823)</u>	<u>-</u>	<u>(\$ 75)</u>	<u>-</u>	<u>(\$ 1,349)</u>	<u>-</u>
	Earnings per share	VI (XXVI)								
9750	Basic earnings per share		<u>\$ 1.00</u>	<u>1.00</u>	<u>\$ 0.39</u>	<u>0.39</u>	<u>\$ 2.11</u>	<u>2.11</u>	<u>\$ 0.73</u>	<u>0.73</u>
9850	Diluted earnings per share		<u>\$ 1.00</u>	<u>1.00</u>	<u>\$ 0.39</u>	<u>0.39</u>	<u>\$ 2.10</u>	<u>2.10</u>	<u>\$ 0.73</u>	<u>0.73</u>

The notes to the consolidated financial statements are part of the consolidated financial statements and should be read together.

Chairman: Hsing-Hai Chen

Manager: Ming-Chien Chang

Accounting Manager: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Microelectronics Technology Inc. and its SubsidiariesConsolidated Statements of Changes in EquityFor the six months ended June 30, 2020 and 2019

(Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards in the Republic of China)

Unit: NT\$ thousand

	Note	Equity attributable to owners of the parent company							Non-controlling interests	Total equity	
		Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Treasury stock			Total
2019											
Balance as of January 1, 2019		\$2,857,589	\$ 59,072	\$1,288,584	\$ 194,377	\$ 3,093,047	\$ -	(\$ 137,321)	\$ 7,355,348	(\$ 110,910)	\$ 7,244,438
Net profit of current period		-	-	-	-	204,087	-	-	204,087	(1,349)	202,738
Other comprehensive income (loss)		-	-	-	-	-	(13,844)	-	(13,844)	-	(13,844)
Total comprehensive income of current period		-	-	-	-	204,087	(13,844)	-	190,243	(1,349)	188,894
Annual appropriation of net income and allocation of the year 2018											
Legal reserve		-	-	70,651	-	(70,651)	-	-	-	-	-
Cash dividends from capital surplus		-	-	-	-	(428,638)	-	-	(428,638)	-	(428,638)
Special reserve reversal		-	-	-	(194,377)	194,377	-	-	-	-	-
Recognition of effects from all equity changes in subsidiaries - cash dividends distribution of subsidiaries	VI (XVII)	-	1,146	-	-	-	-	-	1,146	(15,612)	(14,466)
Recognized net equity value of new shares issued to subsidiaries not based on shareholding ratio	VI (XVII) (XXVIII)	-	35,475	-	-	-	-	-	35,475	(2,365)	33,110
Dividends that are not collected before the designated date shall be transferred to capital surplus	VI (XVII)	-	39	-	-	-	-	-	39	-	39
Balance as of June 30, 2019		\$2,857,589	\$ 95,732	\$1,359,235	\$ -	\$ 2,992,222	(\$ 13,844)	(\$ 137,321)	\$ 7,153,613	(\$ 130,236)	\$ 7,023,377
2020											
Balance as of 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
Net profit of current period		-	-	-	-	591,347	-	-	591,347	(75)	591,272
Other comprehensive income (loss)		-	-	-	-	-	18,973	-	18,973	-	18,973
Total comprehensive income of current period		-	-	-	-	591,347	18,973	-	610,320	(75)	610,245
Annual appropriation of net income and allocation of the year 2019											
Legal reserve		-	-	49,804	-	(49,804)	-	-	-	-	-
Cash dividends from capital surplus		-	-	-	-	(285,759)	-	-	(285,759)	-	(285,759)
Special reserve		-	-	-	8,524	(8,524)	-	-	-	-	-
Subsidiary's purchase of parent's stock is regarded as treasury stock		-	-	-	-	-	(8,328)	(8,328)	(11,566)	(19,894)	(19,894)
Recognition of effects from all equity changes in subsidiaries - cash dividends distribution of subsidiaries	VI (XVII)	-	1,146	-	-	-	-	-	1,146	(10,396)	(9,250)
Recognition of effects from all equity changes in subsidiaries - Non-controlling	VI (XVII) (XXVIII)	-	(1,749)	-	-	-	-	-	(1,749)	(131)	(1,880)
Dividends that are not collected before the designated date shall be transferred to capital surplus	VI (XVII)	-	82	-	-	-	-	-	82	-	82
Balance as of June 30, 2020		\$2,857,589	\$ 103,784	\$1,409,039	\$ 8,524	\$ 3,533,436	\$ 10,449	(\$ 145,649)	\$ 7,777,172	(\$ 142,849)	\$ 7,634,323

The notes to the consolidated financial statements are part of the consolidated financial statements and should be read together.

Chairman: Hsing-Hai Chen

Manager: Ming-Chien Chang

Accounting Manager: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Microelectronics Technology Inc. and its SubsidiariesConsolidated Statements of Cash FlowFor the six months ended June 30, 2020 and 2019

(Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards in the Republic of China)

		Unit: NT\$ thousand	
	Note	January 1 to June 30, 2020	January 1 to June 30, 2019
<u>Cash flow from operating activities</u>			
Net profit before taxation of current period		\$ 683,636	\$ 240,703
Adjustments			
Profits and loss			
Depreciation expenses	VI (VII)(VIII)(IX)(XX IV)	157,022	221,920
Amortization expenses	VI (X)(XXIV)	51,760	43,368
Expected credit impairment loss	XII (II)	-	10,006
Net loss (profit) of financial assets at fair value through profit or loss	VI (II)(XXII)	(2,582)	(43,172)
Interest expenses	VI (XXIII)	4,207	5,220
Interest income	VI (XX)	(18,585)	(23,454)
Share of profit (loss) of associates and joint ventures accounted for under equity method	VI (VI)	1,664	4,823
Gains on lease modification		(26)	-
Changes in operating assets and liabilities:			
Net changes in operating assets			
Financial assets at fair value through profit and loss		1,126	-
Notes receivable		(35)	-
Accounts receivable		(103,030)	(307,620)
Accounts receivable - related parties		(649)	-
Other receivables		(4,017)	23,104
Inventories		(1,677,944)	986,922
Prepayments		(59,811)	53,294
Other current assets		2,087	(1,124)
Net changes in liabilities relating to operating activities			
Notes payable		3,735	971
Accounts payable		336,679	(433,671)
Contract liabilities		7,571	9,691
Other payables		157,960	32,572
Other current liabilities		69	2,230
Other noncurrent liabilities		(1,174)	197
Cash (outflow) inflow from operations		(460,337)	825,980
Interest received		22,165	24,167
Interest paid		(3,656)	(4,978)
Income tax paid		(46,982)	(129,574)
Cash inflow (outflow) from operating activities, net		(488,810)	715,595

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(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Microelectronics Technology Inc. and its Subsidiaries

Consolidated Statements of Cash Flow

For the six months ended June 30, 2020 and 2019

(Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards in the Republic of China)

		Unit: NT\$ thousand	
	Note	January 1 to June 30, 2020	January 1 to June 30, 2019
<u>Cash flow from investing activities</u>			
Acquisition of financial assets at amortized cost		(\$ 86,416)	(\$ 177,274)
Disposal of financial assets at amortized cost		144,359	-
Acquisition of property, plant and equipment	VI (XXIX)	(119,044)	(151,517)
Decrease (increase) in prepaid equipment		(23,427)	47,240
Acquisition of intangible assets	VI (X)	(95,914)	(17,168)
Cash outflows from disposal of subsidiaries		-	(11,607)
Refundable deposits refunded		245	45
Net cash outflow from investing activities		(180,197)	(310,281)
<u>Cash flow from financing activities</u>			
Increase (decrease) in short-term loans		290,000	(100,000)
Short-term notes and bills payable		100,163	520
Repayment of the principal amount of rentals	VI (XXIX)	(4,952)	(6,180)
Increase in deposits received		-	269
Cash dividends distributed by subsidiaries to non-controlling interest		(9,250)	(14,465)
Dividends that are not collected before the designated date		82	39
Cost of treasury stocks purchase		(19,894)	-
Purchase of equity from non-controlling interests		(1,880)	-
Net cash inflow (outflow) from financing activities		354,269	(119,817)
(Decrease) increase in cash and cash equivalents		(314,738)	285,497
Beginning balance of cash and cash equivalents	VI (I)	2,757,003	1,873,828
Ending balance of cash and cash equivalents	VI (I)	\$ 2,442,265	\$ 2,159,325

The notes to the consolidated financial statements are part of the consolidated financial statements and should be read together.

Chairman: Hsing-Hai Chen

Manager: Ming-Chien Chang

Accounting Manager: Candy Chu

(English Translation of a Report Originally Issued in Chinese)

Elite Semiconductor Microelectronics Technology Inc. and its Subsidiaries

Notes to the Consolidated Financial Statements

for the Six-Month Periods Ended June 30, 2020 and 2019

(Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards in the Republic of China)

Unit: NT\$ thousand
(Unless otherwise indicated)

I. Company History

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

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

II. Approval Date and Procedures of the Financial Statements

The consolidated financial statements were released on August 11, 2020, after being approved by the Board of Directors.

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

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

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

<u>Application of New/Revised/Amended Standards, Amendments and Interpretations</u>	<u>The Effective Date Announced by the International Accounting Standards Board</u>
Amendments to IAS 1 and IAS 8 “Disclosure Initiative - Definition of Materiality”	January 1, 2020
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS 39, and IFRS 7 “Changes in Interest Rate Indicators”	January 1, 2020
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

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

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

None.

(III) Effects of IFRS Issued by IASB but not yet Endorsed by the FSC

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

<u>Application of New/Revised/Amended Standards, Amendments and Interpretations</u>	<u>The Effective Date Announced by the International Accounting Standards Board</u>
Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"	January 1, 2021
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, 2022
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

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

IV. Summary of Significant Accounting Policies

Among the significant accounting policies, except for the compliance statement, preparation basis, consolidation basis and additions which are stated below, the rest are the same as Note IV of the 2019 consolidated financial statements. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(I) Statement of compliance

1. 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 endorsed by the FSC.
2. These consolidated financial statements shall be read together with the 2019 consolidated financial statements.

(II) Preparation Basis

1. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:
 - (1) Financial assets and financial liabilities (including derivatives instruments) at fair value through profit or loss
 - (2) Financial assets measured at fair value through other comprehensive income.

- (3) Defined benefit liabilities recognized based on the amount of pension fund assets less net present value of defined benefit obligations.
2. Some material accounting estimates will be used for the preparation of financial reports to comply with IFRS, IAS, interpretation and interpretation announcement (hereafter referred to as IFRSs), and also will be applied by the management for judgment in the application of the Company's accounting policies. For the items involving high judgment or complexity, or items involving material hypotheses and estimates of individual financial reports, please refer to the specific Note V.

(III) Basis of consolidation

1. Basis for preparation of consolidated financial statements:

The principles followed in preparing the consolidated financial statements are the same as those in 2019.

2. Subsidiaries included in the consolidated financial statements:

Investor	Name of subsidiaries	Business activities	Percentage of shareholdings			Description
			June 30, 2020	December 31, 2019	June 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	Note 1
Elite Semiconductor Microelectronics Technology Inc.	CML Inc.	General investment	-	-	100	Note 2 and 7
Elite Semiconductor Microelectronics Technology Inc.	Charng Feng Investment Ltd.	General investment	100	100	100	Note 1
Elite Semiconductor Microelectronics Technology Inc.	Jie Yong Investment Ltd.	General investment	41.86	41.86	41.86	Note 1 and 3
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	Note 1
Elite Semiconductor Microelectronics Technology Inc.	Eon Silicon Solution (Samoa) Inc.	Investigation and research of business situation and industrial technology	-	-	100	Note 2 and 4
Elite Semiconductor Microelectronics Technology Inc.	Eon Silicon Solutions, Inc. USA	Design, development and testing of products	100	100	100	Note 1
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	Note 1
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	Note 1
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	-	Note 1 and 5
Charng Feng Investment Ltd.	Elite Semiconductor	Technical consultation and	100	100	-	Note 1 and 4

Investor	Name of subsidiaries	Business activities	Percentage of shareholdings			Description
			June 30, 2020	December 31, 2019	June 30, 2019	
Ltd.	Memory Technology (Shenzhen) Inc.	service, after-sales service				
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	-		- Note 1 and 8
CML Inc.	Elite Innovation (B.V.I.) Ltd.	General investment	-	-	100	Note 2 and 6
Elite Innovation (B.V.I.) Ltd.	Elite Innovation Japan Ltd.	Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade	-	-	100	Notes 2 and 5
Eon Silicon Solution (Samoa) Inc.	Elite Semiconductor Memory Technology (Shenzhen) Inc.	Technical consultation and service, after-sales service	-	-	100	Note 2 and 4

Note 1. The financial statements of the entity as of and for the six-month periods ended June 30, 2020 were not reviewed by independent accountants as the entity did not meet the definition of significant subsidiary.

Note 2. The financial statements of the entity as of and for the six-month periods ended June 30, 2019 were not reviewed by independent accountants as the entity did not meet the definition of significant subsidiary.

Note 3. Elite Semiconductor Microelectronics Technology Inc. accounts for the majority of voting rights of Jie Yong Investment Ltd. with same management. It is evaluated to have substantial control, so it is included in the subsidiary of ESMT's consolidated financial reporting entity.

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

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

Note 6. Elite Innovation (B.V.I) Ltd. went through the liquidation procedures in September 2019 and obtained the dissolution approval letter on March 6, 2020.

Note 7. CML Inc. carried out liquidation procedures in December 2019 and obtained a release approval letter on May 18, 2020.

Note 8. 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.

3. Subsidiaries not absorbed into the consolidated financial reports: None.
4. Adjustments for subsidiaries with different balance sheet dates: Note applicable.
5. Significant restrictions: none.
6. Subsidiaries with material non-controlling interest to the Group: none.

(IV) Employee Benefits

The pension cost in the interim period is based on the pension cost ratio decided upon actuation at the closing day of previous FY, from beginning until end of the year. If, after the closing date, there incurs material market changes, settlement, or other material one-time event, the defined benefit plans are to be adjusted, and relevant information is to be disclosed in accordance with the aforementioned policies.

(V) Income tax

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

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

There are no significant changes in the current period. Please refer to Note V of the consolidated financial statements for 2019.

VI. Summary of Significant Accounts

(I) Cash and cash equivalents

	June 30, 2020	December 31, 2019	June 30, 2019
Cash on hand and revolving funds	\$ 157	\$ 171	\$ 193
Checking deposits and demand deposits	559,279	394,658	398,819
Time deposits	1,882,829	2,362,174	1,760,313
	<u>\$ 2,442,265</u>	<u>\$ 2,757,003</u>	<u>\$ 2,159,325</u>

1. The Group transacts with a variety of financial institutions with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
2. For information on where the Group's use of cash and cash equivalents as pledge guarantees is restricted, please refer to Note VIII.

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

Items	June 30, 2020	December 31, 2019	June 30, 2019
Current items:			
Financial assets mandatorily measured at fair value through profit or loss			
TWSE/TPEX-listed stocks	\$ 576	\$ 1,567	\$ 47,361
Emerging stocks	148,013	148,013	170,444
Unlisted stocks, TWSE/TPEX-listed stocks, Emerging stocks	23,263	23,263	4,413
Beneficiary certificates	74,102	74,442	75,485
Corporate bonds	31,226	31,226	31,226
Preference share	14,341	14,510	15,033
Subtotal	291,521	293,021	343,962
Evaluation adjustment	(37,471)	(40,428)	5,584
Total	\$ 254,050	\$ 252,593	\$ 349,546

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

	April 1 to June 30, 2020	April 1 to June 30, 2019
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	\$ 10,587	\$ 6,781
Debt instruments	4,825	(121)
Beneficiary certificates	432	755
Total	\$ 15,844	\$ 7,415
	January 1 to June 30, 2020	January 1 to June 30, 2019
Financial assets mandatorily measured at fair value through profit or loss		
Equity instruments	\$ 3,270	\$ 36,554
Debt instruments	(880)	1,300
Beneficiary certificates	192	5,318
Total	\$ 2,582	\$ 43,172

2. The Group has no financial assets at fair value through profit or loss pledged to others.
3. For information on the credit risks of financial assets measured at FVTPL, please refer to Note XII and (II) 3.(2).

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

Items	June 30, 2020	December 31, 2019	June 30, 2019
Non-current items:			
Equity instruments			
Unlisted stocks,			
TWSE/TPEX-listed			
stocks, Emerging			
stocks	\$ 59,300	\$ 59,300	\$ 59,300
Evaluation			
adjustment	10,448	(8,524)	(13,844)
	<u>\$ 69,748</u>	<u>\$ 50,776</u>	<u>\$ 45,456</u>

The Group elects to classify its strategic equity investments as financial assets measured at FVTOCI. The fair value of such investments as of June 30, 2020, December 31, 2019 and June 30, 2019 amounted to NT\$69,748, NT\$50,776, and NT\$45,456, respectively.

(IV) Accounts Receivable

	June 30, 2020	December 31, 2019	June 30, 2019
Accounts receivable -			
general customers	\$ 1,374,022	\$ 1,270,992	\$ 1,415,892
Accounts receivable -			
related parties	890	241	1,797
	<u>1,374,912</u>	<u>1,271,233</u>	<u>1,417,689</u>
Less: Allowance for			
losses	(14,295)	(14,295)	(14,295)
	<u>\$ 1,360,617</u>	<u>\$ 1,256,938</u>	<u>\$ 1,403,394</u>

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

	June 30, 2020	December 31, 2019	June 30, 2019
Not past due	\$ 1,360,617	\$ 1,256,700	\$ 1,403,394
Past due - within 30 days	-	238	-
Past due - 31-90 days	-	-	-
Past due - 91-180 days	-	-	-
Past due - over 181 days	14,295	14,295	14,295
	<u>\$ 1,374,912</u>	<u>\$ 1,271,233</u>	<u>\$ 1,417,689</u>

The aging analysis above is based on the number of past due days.

2. The amounts that best represent the maximum credit risk exposure of the Group's accounts receivables as of June 30, 2020, December 31, 2019 and June 30, 2019 without taking account of any collateral held or other credit enhancements were NT\$1,360,617, NT\$1,256,938, and NT\$1,403,394.

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

	June 30, 2020	December 31, 2019	June 30, 2019
Bank guarantee	\$ 38,389	\$ 43,494	\$ 48,818
Pledged certificate of deposit	-	7,500	7,500
Refundable deposits (listed in “other non-current liabilities”)	8,696	8,794	9,097
Letters of credit	615,741	546,672	525,117
Company promissory note/check	426,112	366,621	352,265
	<u>\$ 1,088,938</u>	<u>\$ 973,081</u>	<u>\$ 942,797</u>

4. For information on the relevant credit risks of the accounts receivable, please refer to Note XII (II).
5. The balances of accounts receivable as of June 30, 2020, December 31, 2019 and June 30, 2019 are all generated by customer contracts, and the balance of receivables from customer contracts as of January 1, 2019 is NT\$1,105,913.
6. The Group has no accounts receivable provided as pledge guarantees.

(V) Inventories

	June 30, 2020		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 195,570	(\$ 6,095)	\$ 189,475
Work in process	4,805,151	(57,382)	4,747,769
Finished goods	1,715,731	(51,884)	1,663,847
Inventory in transit	49,405	-	49,405
	<u>\$ 6,765,857</u>	<u>(\$ 115,361)</u>	<u>\$ 6,650,496</u>

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

	June 30, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 339,250	(\$ 30,997)	\$ 308,253
Work in process	3,710,857	(134,560)	3,576,297
Finished goods	1,005,262	(123,612)	881,650
Inventory in transit	14,534	-	14,534
	<u>\$ 5,069,903</u>	<u>(\$ 289,169)</u>	<u>\$ 4,780,734</u>

The cost of inventories recognized as expense for the period:

	April 1 to June 30, 2020	April 1 to June 30, 2019
Cost of inventories sold	\$ 2,516,784	\$ 2,640,694
Inventory valuation and obsolescence (recovery profit) loss	(12,429)	1,883
	<u>\$ 2,504,355</u>	<u>\$ 2,642,577</u>
	January 1 to June 30, 2020	January 1 to June 30, 2019
Cost of inventories sold	\$ 5,514,528	\$ 4,894,444
Inventory valuation and obsolescence (recovery profit) loss	(53,835)	34,514
	<u>\$ 5,460,693</u>	<u>\$ 4,928,958</u>

From April 1 to June 30, 2020 and January 1 to June 30, 2020, since the inventory with provision for price loss in the previous period has been sold, there is gain from price recovery of inventory.

(VI) Investment accounted for using equity method

	2020	2019
January 1	\$ 33,210	\$ -
The increase in investments accounted under equity method (Note)	-	43,838
Share of interests from investments under equity method	(1,664)	(4,823)
June 30	<u>\$ 31,546</u>	<u>\$ 39,015</u>

	June 30, 2020	December 31, 2019	June 30, 2019
Associates	\$ 31,546	\$ 33,210	\$ 39,015

Note: The Group held 7,795 thousand shares or NT\$77,950 in its subsidiary, Canyon Semiconductor Inc. (hereinafter referred to as Canyon Semiconductor). As the Group did not participate in Canyon Semiconductor 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.

1. Associates

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

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

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

Balance sheet

	Canyon Semiconductor Inc.		
	June 30, 2020	December 31, 2019	June 30, 2019
Current assets	\$ 120,604	\$ 91,092	\$ 105,312
Noncurrent assets	858	1,596	2,576
Current liabilities	(44,389)	(11,549)	(5,781)
Total net assets	\$ 77,073	\$ 81,139	\$ 102,107
Share in the net assets of associates	\$ 31,546	\$ 33,210	\$ 39,015
Book value of associates	\$ 77,073	\$ 81,139	\$ 102,107

Statement of comprehensive income

	Canyon Semiconductor Inc.	
	April 1 to June 30, 2020	April 1 to June 30, 2019
Revenue	\$ 49,135	\$ 6,627
Net income (loss) for the year from the continuing department	\$ 1,866	(\$ 4,519)
Total comprehensive income (loss) for the current period	\$ 1,866	(\$ 4,519)

	Canyon Semiconductor Inc.	
	January 1 to June 30, 2020	January 1 to June 30, 2019
Revenue	\$ 64,413	\$ 9,857
Net income (loss) for the year from the continuing department	(\$ 4,066)	(\$ 12,621)
Total comprehensive income (loss) for the current period	(\$ 4,066)	(\$ 12,621)

2. The above investment using equity method is based on the company's evaluation of financial reports that have not been reviewed by individual auditors during the same period. The recognition of investment (losses) gains is as follows:

Investee	April 1 to June 30, 2020	April 1 to June 30, 2019
Canyon Semiconductor Inc.	\$ 763	(\$ 1,727)
Investee	January 1 to June 30, 2020	January 1 to June 30, 2019
Canyon Semiconductor Inc.	(\$ 1,664)	(\$ 4,823)

(VII) Property, plant and equipment

	Land	Houses and buildings	Machinery equipment	Laboratory equipment	Others	Total
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>
2020						
January 1	\$ 9,023	\$ 271,053	\$ 77,156	\$ 102,906	\$ 236,190	\$ 696,328
Additions	-	-	20,316	6,983	105,233	132,532
Transfer (Note)	-	-	221	-	-	221
Depreciation expenses	-	(17,053)	(9,590)	(11,043)	(113,649)	(151,335)
June 30	<u>\$ 9,023</u>	<u>\$ 254,000</u>	<u>\$ 88,103</u>	<u>\$ 98,846</u>	<u>\$ 227,774</u>	<u>\$ 677,746</u>
June 30, 2020						
Cost	\$ 9,023	\$ 635,941	\$ 450,319	\$ 256,285	\$ 1,336,281	\$ 2,687,849
Accumulated depreciation and impairment	-	(381,941)	(362,216)	(157,439)	(1,108,507)	(2,010,103)
	<u>\$ 9,023</u>	<u>\$ 254,000</u>	<u>\$ 88,103</u>	<u>\$ 98,846</u>	<u>\$ 227,774</u>	<u>\$ 677,746</u>
	Land	Houses and buildings	Machinery equipment	Laboratory equipment	Others	Total
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>
2019						
January 1	\$ 9,023	\$ 283,065	\$ 79,915	\$ 54,432	\$ 372,627	\$ 799,062
Additions	-	1,590	5,293	62	46,760	53,705
Transfer (Note)	-	13,770	-	59,205	-	72,975
Effect of changes in consolidated entities	-	-	-	(336)	(2,843)	(3,179)
Depreciation expenses	-	(16,035)	(31,069)	(9,411)	(158,110)	(214,625)
June 30	<u>\$ 9,023</u>	<u>\$ 282,390</u>	<u>\$ 54,139</u>	<u>\$ 103,952</u>	<u>\$ 258,434</u>	<u>\$ 707,938</u>
June 30, 2019						
Cost	\$ 9,023	\$ 630,610	\$ 399,166	\$ 239,268	\$ 1,118,712	\$ 2,396,779
Accumulated depreciation and impairment	-	(348,220)	(345,027)	(135,316)	(860,278)	(1,688,841)
	<u>\$ 9,023</u>	<u>\$ 282,390</u>	<u>\$ 54,139</u>	<u>\$ 103,952</u>	<u>\$ 258,434</u>	<u>\$ 707,938</u>

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

1. The Group has no capitalization of interest from January 1 to June 30, 2020 and 2019.
2. The Group has no property, plant and equipment pledged to others.

(VIII) Lease Transaction - The Lessee

1. The underlying assets leased by the Group include land, houses and buildings, company cars and photocopiers. The periods of the lease contract vary from 2 to 20 years. The lease contract is negotiated individually and contains various terms and conditions. The company cars and company dorms leased by the Group are classified as short-term lease contracts because the lease period does not exceed 12 months.
2. Below is the carrying amounts of right-of-use assets and their recognized depreciation expenses:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
	<u>Book value</u>	<u>Book value</u>	<u>Book value</u>
Land	\$ 63,931	\$ 65,641	\$ 67,351
Houses and buildings	12,302	19,270	28,502
Company vehicles	67	470	1,336
Photocopy machines	638	986	1,334
	<u>\$ 76,938</u>	<u>\$ 86,367</u>	<u>\$ 98,523</u>

	<u>April 1 to June 30, 2020</u>	<u>April 1 to June 30, 2019</u>
	<u>Depreciation expenses</u>	<u>Depreciation expenses</u>
Land	\$ 855	\$ 855
Houses and buildings	1,537	1,952
Company vehicles	202	433
Photocopy machines	174	174
	<u>\$ 2,768</u>	<u>\$ 3,414</u>

	<u>January 1 to June 30, 2020</u>	<u>January 1 to June 30, 2019</u>
	<u>Depreciation expenses</u>	<u>Depreciation expenses</u>
Land	\$ 1,710	\$ 1,710
Houses and buildings	2,741	3,886
Company vehicles	403	866
Photocopy machines	348	348
	<u>\$ 5,202</u>	<u>\$ 6,810</u>

3. Profit and loss items associated with lease contracts are as follows:

	<u>April 1 to June 30,</u>	<u>April 1 to June 30,</u>
	<u>2020</u>	<u>2019</u>
<u>Items that affect profit or loss</u>		
Interest expense on lease liability	\$ 301	\$ 382
Rent expense of short-term leases	\$ 2,775	\$ 2,134
	<u>January 1 to June</u>	<u>January 1 to June</u>
	<u>30, 2020</u>	<u>30, 2019</u>
<u>Items that affect profit or loss</u>		
Interest expense on lease liability	\$ 612	\$ 644
Rent expense of short-term leases	\$ 4,325	\$ 4,250

4. The Group's total lease cash outflows from January 1 to June 30, 2020 and 2019 were NT\$9,889 and NT\$11,074, respectively.

(IX) Investment property

	<u>Houses and buildings</u>
January 1, 2020	
Cost	\$ 20,369
Accumulated depreciation and impairment	(1,698)
	<u>\$ 18,671</u>
<u>2020</u>	
January 1	\$ 18,671
Depreciation expenses	(485)
June 30	<u>\$ 18,186</u>
June 30, 2020	
Cost	\$ 20,369
Accumulated depreciation and impairment	(2,183)
	<u>\$ 18,186</u>
	<u>Houses and buildings</u>
January 1, 2019	
Cost	\$ 20,369
Accumulated depreciation and impairment	(728)
	<u>\$ 19,641</u>
<u>2019</u>	
January 1	\$ 19,641
Depreciation expenses	(485)
June 30	<u>\$ 19,156</u>
June 30, 2019	
Cost	\$ 20,369
Accumulated depreciation and impairment	(1,213)
	<u>\$ 19,156</u>

- Rental income from the lease of the investment property and direct operating expenses arising from the investment property are shown below:

	<u>April 1 to June 30, 2020</u>	<u>April 1 to June 30, 2019</u>
Rental income from investment property	<u>\$ 628</u>	<u>\$ 608</u>
Direct operating expenses arising from the investment property generating rental income in the period	<u>\$ 243</u>	<u>\$ 243</u>
	<u>January 1 to June 30, 2020</u>	<u>January 1 to June 30, 2019</u>
Rental income from investment property	<u>\$ 1,280</u>	<u>\$ 1,260</u>
Direct operating expenses arising from the investment property generating rental income in the period	<u>\$ 485</u>	<u>\$ 485</u>

- The fair values of the investment property held by the Group on June 30, 2020, December 31, 2019 and June 30, 2019 were NT\$9,710, NT\$10,538 and NT\$10,844, respectively. These are results of the Group's assessment based on the income approach. The main assumptions are as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Net income as a percentage of capital (Note)	<u>13.83%</u>	<u>13.86%</u>	<u>12.95%</u>

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

- The Group has no capitalization of interest from January 1 to June 30, 2020 and 2019.
- The Group has no investment property pledged as collateral.

(X) Intangible assets

	Patent and special technology	Customer relations	Goodwill	Others	Total
January 1, 2020					
Cost	\$ 34,478	\$ 11,000	\$ 80,758	\$ 203,852	\$ 330,088
Accumulated amortization and impairment	(25,556)	(11,000)	(37,104)	(174,835)	(248,495)
	<u>\$ 8,922</u>	<u>\$ -</u>	<u>\$ 43,654</u>	<u>\$ 29,017</u>	<u>\$ 81,593</u>
<u>2020</u>					
January 1	\$ 8,922	\$ -	\$ 43,654	\$ 29,017	\$ 81,593
Additions	-	-	-	95,914	95,914
Amortization expenses	(2,549)	-	-	(49,211)	(51,760)
June 30	<u>\$ 6,373</u>	<u>\$ -</u>	<u>\$ 43,654</u>	<u>\$ 75,720</u>	<u>\$ 125,747</u>
June 30, 2020					
Cost	\$ 34,478	\$ 11,000	\$ 80,758	\$ 299,766	\$ 426,002
Accumulated amortization and impairment	(28,105)	(11,000)	(37,104)	(224,046)	(300,255)
	<u>\$ 6,373</u>	<u>\$ -</u>	<u>\$ 43,654</u>	<u>\$ 75,720</u>	<u>\$ 125,747</u>

	Patent and special technology	Customer relations	Goodwill	Others	Total
January 1, 2019					
Cost	\$ 34,478	\$ 11,000	\$ 80,758	\$ 159,069	\$ 285,305
Accumulated amortization and impairment	(16,596)	(9,473)	(25,047)	(100,214)	(151,330)
	<u>\$ 17,882</u>	<u>\$ 1,527</u>	<u>\$ 55,711</u>	<u>\$ 58,855</u>	<u>\$ 133,975</u>
<u>2019</u>					
January 1	\$ 17,882	\$ 1,527	\$ 55,711	\$ 58,855	\$ 133,975
Additions	-	-	-	17,168	17,168
Amortization expenses	(5,413)	(1,527)	-	(36,428)	(43,368)
June 30	<u>\$ 12,469</u>	<u>\$ -</u>	<u>\$ 55,711</u>	<u>\$ 39,595</u>	<u>\$ 107,775</u>
June 30, 2019					
Cost	\$ 34,478	\$ 11,000	\$ 80,758	\$ 176,237	\$ 302,473
Accumulated amortization and impairment	(22,009)	(11,000)	(25,047)	(136,642)	(194,698)
	<u>\$ 12,469</u>	<u>\$ -</u>	<u>\$ 55,711</u>	<u>\$ 39,595</u>	<u>\$ 107,775</u>

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

	April 1 to June 30, 2020	April 1 to June 30, 2019
Operating costs	\$ 1,274	\$ 2,318
Selling expenses	18	695
Administrative expenses	171	196
Research and development expenses	25,338	18,166
	<u>\$ 26,801</u>	<u>\$ 21,375</u>

	January 1 to June 30, 2020	January 1 to June 30, 2019
Operating costs	\$ 2,549	\$ 4,858
Selling expenses	110	1,722
Administrative expenses	341	369
Research and development expenses	48,760	36,419
	<u>\$ 51,760</u>	<u>\$ 43,368</u>

2. The Group has no capitalization of interest from January 1 to June 30, 2020 and 2019.
3. For the impairment of intangible assets, please refer to Note VI(XI).
4. The Group has not pledged intangible assets.

(XI) Impairment of non-financial assets

Goodwill conducts an Impairment test on the date of annual financial statements, and the recoverable amount is evaluated based on use value. The relevant impairment assessment assumptions of the Group as of June 30, 2020 have not changed significantly. Please refer to Note VI (XI) of the 2019 consolidated financial statements for goodwill impairment assessment.

(XII) Short-term borrowings

<u>Loan type</u>	<u>June 30, 2020</u>	<u>Interest rate collars</u>	<u>Collateral</u>
Borrowings from banks			
Credit loan	<u>\$ 564,000</u>	0.83% ~ 1.76%	None

<u>Loan type</u>	<u>December 31, 2019</u>	<u>Interest rate collars</u>	<u>Collateral</u>
Borrowings from banks			
Credit loan	<u>\$ 274,000</u>	0.98% ~ 1.90%	None

<u>Loan type</u>	<u>June 30, 2019</u>	<u>Interest rate collars</u>	<u>Collateral</u>
Borrowings from banks			
Credit loan	<u>\$ 270,000</u>	1.00% ~ 1.05%	None

Interest expenses recognized in profit or loss for the three-month and six-month periods ended June 30, 2020 and 2019 were NT\$1,304, NT\$1,488, NT\$2,645 and NT\$3,407.

(XIII) Other payables

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Cash dividends payables	\$ 295,009	\$ -	\$ 443,104
Salary and bonus payables	401,468	295,252	335,524
Remuneration to employees and Directors	79,832	36,191	69,045
Payable on equipment	71,735	58,026	16,263
Others	71,990	73,054	72,866
	<u>\$ 920,034</u>	<u>\$ 462,523</u>	<u>\$ 936,802</u>

(XIV) Pension

1. (1) In compliance with the requirements set forth in the Labor Standards Act, the Company has stipulated a defined benefit pension plan, which is applicable to the years of service rendered by regular employees prior to, and after (if employees elect to continue to apply the Labor Standards Act), the implementation of the Labor Pension Act on July 1, 2005. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company monthly contributes 2% of the total salary as a pension fund, which is deposited in a designated account with the Bank of Taiwan under the name of the Supervisory Committee of Labor Retirement Reserve. Also, the Company annually assesses the balance in the aforementioned labor pension reserve account by December 31. If the account balance is insufficient for the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March.
- (2) The pension costs recognized by the Group in accordance with the above pension plan were NT\$134, NT\$135, NT\$269 and NT\$270 for the three-month and six-month periods ended June 30, 2020 and 2019, respectively.
- (3) The Company expects to pay NT\$153 for the retirement plan within one year after June 30, 2020.

2. (1) Starting from July 1, 2005, the Company and subsidiaries have set up a Defined Contribution Plan for all employees with ROC citizenship in accordance with the Labor Pension Act. Under the Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in a lump sum upon the termination of employment.
- (2) Subsidiary 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.
- (3) The Company's subsidiaries Elite Semiconductor Memory Technology (Shenzhen) Inc. and Elite Semiconductor Microelectronics (Shanghai) Technology Inc. have defined contribution plans. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China are based on certain percentage of employees' monthly salaries and wages. The employee pension is managed and arranged by the government. Other than the monthly contributions, the Group has no further obligations.
- (4) The pension costs recognized by the Group in accordance the aforementioned contribution plans for the three-month and six-month periods ended June 30, 2020 and 2019 were NT\$8,019, NT\$7,824, NT\$15,921 and NT\$15,395, respectively.

(XV) Share-based payments

1. From January 1 to June 30, 2020 and 2019, the Company's share-based payment agreement is as follows:

<u>Type of agreement</u>	<u>Grant date</u>	<u>Quantity granted</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Subsequent to 2010 Eon Silicon Solution Inc.'s employee share purchase plan	Aug. 10, 2010, Oct. 15, 2010 and Jan. 13, 2011	4,000 thousand shares (Note 2)	10 years	Note 1
Subsequent to 2013 Eon Silicon Solution Inc.'s employee share purchase plan	Aug. 19, 2013	7,500 thousand shares (Note 2)	10 years	Note 1

Note 1. The accumulative proportion of the new equity 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.

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

2. The details of the preceding share-based payment agreement are as follows:

Employee share subscription plan succeeded from Eon Silicon Solution Inc.:

	2020		2019	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding stock options as of January 1	543	\$ 59.2~303.4	621	\$ 62.3~319.0
Abandoned share option for the period	(4)	-	-	-
Outstanding stock options as of June 30	<u>539</u>	\$ 59.2~303.4	<u>621</u>	\$ 62.3~319.0
Exercisable stock options as of June 30	<u>539</u>		<u>621</u>	

3. For the Six-Month Periods Ended June 30, 2020 and 2019, there was no option exercise.
4. As of June 30, 2020, December 31, 2019 and June 30, 2019, the outstanding stock options have exercise price ranges of NT\$59.2 to NT\$303.4, NT\$59.2 to NT\$303.4, and NT\$62.3 to NT\$319.0. The weighted average remaining contract periods are 3.14 years, 3.64 years and 4.14 years.
5. The fees for the above-mentioned share-based payment transactions for the three-month and six-month periods ended to June 30, 2020 and 2019 are all NT\$0.

(XVI) Share capital

1. As of June 30, 2020, the Company's authorized capital was NT\$3,500,000, divided into 350,000 thousand shares (including 20,000 thousand shares that can be subscribed by the employee stock option), the paid-in capital was NT\$2,857,589, and the nominal amount per share was NT\$10.

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

	Shares: thousand shares	
	2020	2019
Outstanding shares as of January 1	272,320	272,320
Subsidiary's acquisition of parent company's stock is regarded as treasury stock transaction	(715)	-
Outstanding shares as of June 30	271,605	272,320
Treasury stocks at the end of the period	14,154	13,439
Number of shares issued as of June 30	285,759	285,759

2. Treasury stock

The Company's shares held by the Company's subsidiary, Jie Young Investment Ltd., as of June 30, 2020, December 31, 2019, and June 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 NT\$347,942, NT\$328,048 and NT\$328,048, respectively; the average book value per share were NT\$24.58, NT\$24.41 and NT\$24.41, and the fair value per share were NT\$38.65, NT\$38.90 and NT\$32.30.

(XVII) Capital surplus

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

	2020				
	Treasury stock transactions	Recognition of effects from all equity changes in subsidiaries and associates	Employee share option	Others	Total
January 1	\$ 1,661	\$ 94,949	\$ 3,913	\$ 3,782	\$ 104,305
Recognition of effects from all equity changes in subsidiaries - Cash dividends	-	1,146	-	-	1,146
Recognition of effects from all equity changes in subsidiaries - Non-controlling	-	(1,749)	-	-	(1,749)
Dividends that are not collected before the designated date shall be transferred to capital surplus	-	-	-	82	82
June 30	\$ 1,661	\$ 94,346	\$ 3,913	\$ 3,864	\$ 103,784

	2019				
	Treasury stock transactions	Recognition of effects from all equity changes in subsidiaries and associates	Employee share option	Others	Total
January 1	\$ 1,661	\$ 49,710	\$ 3,913	\$ 3,788	\$ 59,072
Recognition of effects from all equity changes in subsidiaries -					
Cash dividends	-	1,146	-	-	1,146
Recognized net equity value of new shares issued to subsidiaries not based on shareholding ratio	-	35,475	-	-	35,475
Dividends that are not collected before the designated date shall be transferred to capital surplus	-	-	-	39	39
June 30	<u>\$ 1,661</u>	<u>\$ 86,331</u>	<u>\$ 3,913</u>	<u>\$ 3,827</u>	<u>\$ 95,732</u>

(XVIII) Retained earnings

1. According to the Company's Articles of Association, current year's earnings, if any, shall be distributed in the following order:
 - (1) Pay taxes.
 - (2) Deficit Compensation.
 - (3) Appropriate 10% to be the legal surplus reserve.
 - (4) Set aside another sum as special reserve if necessary.
 - (5) In case unappropriated surplus is found, the balance will be allocated as dividend for shareholders, and will be distributed according to the ratio of shareholders or withheld as accumulated earnings pursuant to the resolution from the shareholders' meeting
2. Dividend policies

The Company is still in the growth stage. If more than 5% of the total surplus is determined to be distributed as dividends, it shall be distributed in form of cash and the rest will be distributed in the form of shares.
3. Legal reserves may only be used for offsetting deficits and issuing new shares or distributing cash in proportion to shareholders' original holdings. However, when new shares are issued or cash is distributed, the amount shall be limited to 25% of the reserves in excess of the paid-in capital.
4.
 - (1) The Company may allocate earnings only after providing a special reserve for debt balance in other equity on the date of balance sheet, and the reversal of debit balance in other equity, if any, may be stated into allocable earnings.
 - (2) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Financial-Supervisory-Securities-Corporate-1010012865 on 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.

5. On March 18, 2019, the 2018 surplus distribution was approved by the resolution of the Board of Directors. It is proposed to provide a statutory surplus reserve of NT\$70,651 and distribute shareholders' cash dividends of NT\$1.5 per share, which is NT\$428,638. The aforementioned surplus distribution was approved by the shareholders' meeting on June 13, 2019.
6. On March 20, 2020, the 2019 surplus distribution was approved by the resolution of the Board of Directors. It is proposed to provide a statutory surplus reserve of NT\$49,804 and distribute shareholders' cash dividends of NT\$1 per share, which is NT\$285,759. The aforementioned surplus distribution has not been approved by the shareholders' general meeting.

(XIX) Operating revenue

	April 1 to June 30, 2020	April 1 to June 30, 2019
Revenue from customer contracts	\$ 3,210,628	\$ 3,036,633
	January 1 to June 30, 2020	January 1 to June 30, 2019
Revenue from customer contracts	\$ 6,874,358	\$ 5,660,998

1. Disaggregation of revenue from contracts with customers

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

April 1 to June 30,

2020	Domestic	Asia	Others	Total
Integrated circuit	\$ 1,302,840	\$ 1,874,460	\$ 33,328	\$ 3,210,628

April 1 to June 30,
2019

	Domestic	Asia	Others	Total
Integrated circuit	\$ 1,230,188	\$ 1,759,839	\$ 46,606	\$ 3,036,633

January 1 to June 30,
2020

	Domestic	Asia	Others	Total
Integrated circuit	\$ 2,981,568	\$ 3,819,213	\$ 73,577	\$ 6,874,358

January 1 to June 30,
2019

	Domestic	Asia	Others	Total
Integrated circuit	\$ 2,404,924	\$ 3,151,885	\$ 104,189	\$ 5,660,998

2. Contract liabilities

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>	<u>January 1, 2019</u>
Contract liabilities – Advanced from customers	\$ 11,530	\$ 3,959	\$ 13,263	\$ 3,710

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

	<u>April 1 to June 30, 2020</u>	<u>April 1 to June 30, 2019</u>
Contract liabilities – Advanced from customers	\$ 65	\$ 3,413

	<u>January 1 to June 30, 2020</u>	<u>January 1 to June 30, 2019</u>
Contract liabilities – Advanced from customers	\$ 3,874	\$ 3,497

(XX) Interest income

	<u>April 1 to June 30, 2020</u>	<u>April 1 to June 30, 2019</u>
Interest from bank deposits	\$ 7,102	\$ 11,573
Interest income from financial assets at amortized cost	140	813
Other interest incomes	195	357
	<u>\$ 7,437</u>	<u>\$ 12,743</u>

	<u>January 1 to June 30, 2020</u>	<u>January 1 to June 30, 2019</u>
Interest from bank deposits	\$ 17,305	\$ 21,872
Interest income from financial assets at amortized cost	838	870
Other interest incomes	442	712
	<u>\$ 18,585</u>	<u>\$ 23,454</u>

(XXI) Other revenue

	April 1 to June 30, 2020	April 1 to June 30, 2019
Rent income	1,377	1,189
Other income - others	3,645	2,264
	<u>\$ 5,022</u>	<u>\$ 3,453</u>

	January 1 to June 30, 2020	January 1 to June 30, 2019
Rent income	2,766	2,843
Other income - others	4,814	4,828
	<u>\$ 7,580</u>	<u>\$ 7,671</u>

(XXII) Other gains or losses

	April 1 to June 30, 2020	April 1 to June 30, 2019
Net profit (loss) on foreign exchange	(\$ 31,648)	\$ 19,025
Net gain on financial assets measured at fair value through profit and loss	15,844	7,415
Other expenses	(243)	(243)
	<u>(\$ 16,047)</u>	<u>\$ 26,197</u>

	January 1 to June 30, 2020	January 1 to June 30, 2019
Net profit (loss) on foreign exchange	(\$ 12,026)	\$ 30,800
Net gain on financial assets measured at fair value through profit and loss	2,582	43,172
Gains on lease modification	26	-
Other expenses	(485)	(485)
	<u>(\$ 9,903)</u>	<u>\$ 73,487</u>

(XXIII) Financial costs

	April 1 to June 30, 2020	April 1 to June 30, 2019
Interest expenses:		
Borrowings from banks	\$ 1,304	\$ 1,488
Provisions - discount amortization	353	322
Lease liabilities	301	382
Total interest expenses	<u>1,958</u>	<u>2,192</u>
Others	152	261
	<u>\$ 2,110</u>	<u>\$ 2,453</u>

	January 1 to June 30, 2020	January 1 to June 30, 2019
Interest expenses:		
Borrowings from banks	\$ 2,645	\$ 3,407
Provisions - discount amortization	706	645
Lease liabilities	612	644
Total interest expenses	3,963	4,696
Others	244	524
	<u>\$ 4,207</u>	<u>\$ 5,220</u>

(XXIV) Additional information on the nature of these expenses

	April 1 to June 30, 2020	April 1 to June 30, 2019
Employee benefits expenses	<u>\$ 304,573</u>	<u>\$ 227,241</u>
Depreciation expenses of property, plant, and equipment	<u>\$ 77,189</u>	<u>\$ 105,440</u>
Depreciation expenses of right-of-use assets	<u>\$ 2,768</u>	<u>\$ 3,414</u>
Depreciation expenses of investment property	<u>\$ 243</u>	<u>\$ 243</u>
Amortization expenses of intangible assets	<u>\$ 26,801</u>	<u>\$ 21,375</u>
	<u>January 1 to June 30, 2020</u>	<u>January 1 to June 30, 2019</u>
Employee benefits expenses	<u>\$ 604,593</u>	<u>\$ 443,056</u>
Depreciation expenses of property, plant, and equipment	<u>\$ 151,335</u>	<u>\$ 214,625</u>
Depreciation expenses of right-of-use assets	<u>\$ 5,202</u>	<u>\$ 6,810</u>
Depreciation expenses of investment property	<u>\$ 485</u>	<u>\$ 485</u>
Amortization expenses of intangible assets	<u>\$ 51,760</u>	<u>\$ 43,368</u>

(XXV) Employee benefits expenses

	April 1 to June 30, 2020	April 1 to June 30, 2019
Salaries and wages	\$ 276,890	\$ 204,854
Labor insurance and national health insurance	10,987	10,640
Pension expenses	8,153	7,959
Directors' Remuneration	1,222	285
Other personnel cost	7,321	3,503
	<u>\$ 304,573</u>	<u>\$ 227,241</u>
	<u>January 1 to June 30, 2020</u>	<u>January 1 to June 30, 2019</u>
Salaries and wages	<u>\$ 548,494</u>	<u>\$ 394,297</u>
Labor insurance and national health insurance	24,400	23,845
Pension expenses	16,190	15,665
Directors' Remuneration	2,484	521
Other personnel cost	13,025	8,728
	<u>\$ 604,593</u>	<u>\$ 443,056</u>

1. According to the provisions of the Company's Articles of Association, the pre-tax interest of the current year should be deducted from the distribution of employees' compensation and the benefits of Directors' remuneration, and not less than 5% of employees' compensation and 1% of Directors' remuneration.
2. For the three-month and six-month periods ended June 30, 2020 and 2019, the Company's compensation to employees were recognized in the amounts equal to NT\$17,597, NT\$7,076, NT\$36,367 and NT\$12,813, respectively; and remuneration to Directors and Supervisors were recognized in the amounts equal to NT\$3,519, NT\$1,416, NT\$7,273 and NT\$2,563, respectively, all presented under the payroll expense account.
For the six-months ended June 30, 2020, it is estimated at 5% and 1% based on the profitability as of the current year.
3. The employees' compensation and Directors' remuneration for 2019 resolved by the Board of Directors are the same as the amount recognized in the financial statements for 2019.
4. Information regarding employees' bonus and bonus to Directors approved by the Board of Directors of the Company can be found at the open information observatory.

(XXVI) Income tax

1. Income tax expenses

(1) Components of income tax expenses:

	April 1 to June 30, 2020	April 1 to June 30, 2019
Current income tax:		
Income tax incurred in current period	\$ 52,562	\$ 16,528
Additional tax on undistributed earnings	-	10,378
Overestimation (Underestimation) of prior year's income tax	(4,596)	316
Total income tax in the period	47,966	27,222
Deferred income tax:		
Initial recognition and reversal of temporary differences	3,167	(1,138)
Income tax expenses	<u>\$ 51,133</u>	<u>\$ 26,084</u>

	January 1 to June 30, 2020	January 1 to June 30, 2019
Current income tax:		
Income tax incurred in current period	\$ 95,770	\$ 21,085
Additional tax on undistributed earnings	-	10,378
Overestimation (Underestimation) of prior year's income tax	(4,596)	316
Total income tax in the period	<u>91,174</u>	<u>31,779</u>
Deferred income tax:		
Initial recognition and reversal of temporary differences	1,190	6,186
Income tax expenses	<u>\$ 92,364</u>	<u>\$ 37,965</u>

(2) Income tax (charge)/credit relating to components of other comprehensive income: None

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

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

(XXVII) Earnings Per Share

	April 1 to June 30, 2020		
	After-tax amount	Weighted average number of common shares outstanding (in thousand shares)	Earnings per share (NT\$)
Basic earnings per share			
Profit for the period attributable to ordinary shareholders of the parent company	\$ 279,681	279,984	<u>1.00</u>
Assumed conversion of dilutive potential ordinary shares (Note)			
Employees' Compensation		<u>941</u>	
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent company considering the assumed conversion of all dilutive potential ordinary stocks	<u>\$ 279,681</u>	<u>280,925</u>	<u>1.00</u>

April 1 to June 30, 2019		
After-tax amount	Weighted average number of common shares outstanding (in thousand shares)	Earnings per share (NT\$)
<u>Basic earnings per share</u>		
Profit for the period attributable to ordinary shareholders of the parent company	280,133	0.39
Assumed conversion of dilutive potential ordinary shares (Note)		
Employees' Compensation	397	
<u>Diluted earnings per share</u>		
Profit attributable to ordinary shareholders of the parent company considering the assumed conversion of all dilutive potential ordinary stocks	280,530	0.39

January 1 to June 30, 2020		
After-tax amount	Weighted average number of common shares outstanding (in thousand shares)	Earnings per share (NT\$)
<u>Basic earnings per share</u>		
Profit for the period attributable to ordinary shareholders of the parent company	279,984	2.11
Assumed conversion of dilutive potential ordinary shares (Note)		
Employees' Compensation	1,492	
<u>Diluted earnings per share</u>		
Profit attributable to ordinary shareholders of the parent company considering the assumed conversion of all dilutive potential ordinary stocks	281,476	2.10

	January 1 to June 30, 2019		
	After-tax amount	Weighted average number of common shares outstanding (in thousand shares)	Earnings per share (NT\$)
<u>Basic earnings per share</u>			
Profit for the period attributable to ordinary shareholders of the parent company	\$ 204,087	280,133	0.73
Assumed conversion of dilutive potential ordinary shares (Note)			
Employees' Compensation		974	
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent company considering the assumed conversion of all dilutive potential ordinary stocks	\$ 204,087	281,107	0.73

Note: For the three-months and six-month periods ended March 31, 2020 and 2019, since employee stock option has anti-dilution effect, thus is not computed.

(XXVIII) Transactions with non-controlling interests

- On March 30, 2020, the Group purchased additional issued shares of its subsidiary, Elite Silicon Technology Inc. for NT\$1,752 and NT\$128 in cash. The carrying amount of Elite Silicon Technology Inc.'s non-controlling interest on the acquisition date was NT\$119 and \$12, and the equity attributable to owners of the parent company decreased by NT\$1,633 and NT\$116. The impact of the changes in the equity of Elite Silicon Technology Inc. for the six months ended on June 30, 2020 on the equity attributable to owners of the parent is as follows:

	2020
Carrying amount of non-controlling interests	\$ 131
Consideration paid to non-controlling interests	(1,880)
Capital reserve - Difference in the share price and nominal value of the acquired shares of subsidiaries	(\$ 1,749)

- Canyon Semiconductor Inc., a subsidiary of the Group, issued new shares in cash on March 4, 2019. The Group did not subscribe according to the proportion of shares held, thus reducing 39.74% equity. The transaction reduces the non-controlling interest by NT\$2,365 and the equity attributable to owners of the parent increases by NT\$35,475.

(XXIX) Supplemental cash flow information

1. Investing activities with partial cash payments:

	January 1 to June 30, 2020	January 1 to June 30, 2019
Purchase of property, plant, and equipment (including transfers)	\$ 132,753	\$ 126,680
Add: Beginning equipment payables	58,026	41,100
Less: End equipment payables	(71,735)	(16,263)
Cash paid in the period	<u>\$ 119,044</u>	<u>\$ 151,517</u>

2. Changes in liabilities from financing activities:

	January 1 to June 30, 2020	January 1 to June 30, 2019
Cash dividend to shareholders	\$ 295,009	\$ 443,104
Less: Dividends payable at the end of the period	(295,009)	(443,104)
	<u>\$ -</u>	<u>\$ -</u>

3. Changes in liabilities from financing activities

	Short-term notes					
	Short-term borrowings	and bills payable	Lease liabilities	Deposits received	Dividends payable	Total financing liability
January 1, 2020	\$ 274,000	\$ -	\$ 86,887	\$ 9,871	\$ -	\$ 370,758
Changes in financing cash flows	290,000	100,163	(4,952)	-	-	385,211
Interest payments	-	-	(612)	-	-	(612)
Interest expenses	-	-	612	-	-	612
Other non-cash changes	-	(236)	-	-	-	(236)
Lease modification changes	-	-	(4,253)	-	-	(4,253)
Dividend declared	-	-	-	-	295,009	295,009
June 30, 2020	<u>\$ 564,000</u>	<u>\$ 99,927</u>	<u>\$ 77,682</u>	<u>\$ 9,871</u>	<u>\$ 295,009</u>	<u>\$ 1,046,489</u>

	Short-term notes					
	Short-term borrowings	and bills payable	Lease liabilities	Deposits received	Dividends payable	Total financing liability
January 1, 2019	\$ 370,000	\$ 99,932	\$ 105,090	\$ 9,601	\$ -	\$ 584,623
Changes in financing cash flows	(100,000)	520	(6,180)	270	-	(105,390)
Interest payments	-	-	(622)	-	-	(622)
Interest expenses	-	-	644	-	-	644
Other non-cash changes	-	(515)	(417)	-	-	(932)
Dividend declared	-	-	-	-	443,104	443,104
Foreign exchange impact amount	-	-	243	-	-	243
June 30, 2019	<u>\$ 270,000</u>	<u>\$ 99,937</u>	<u>\$ 98,758</u>	<u>\$ 9,871</u>	<u>\$ 443,104</u>	<u>\$ 921,670</u>

VII. Related-Party Transactions

(I) Names of related parties and relationship

Name	Relationship with the Group
Arima Lasers Corp.	The Company's subsidiary as this company's director
Canyon Semiconductor Inc.	Investee under indirect equity valuation method

(II) Remuneration to key management

	April 1 to June 30, 2020	April 1 to June 30, 2019
Salary and other short-term employees' benefits	\$ 14,227	\$ 8,642
Benefits after retirement	108	108
Total	\$ 14,335	\$ 8,750

	January 1 to June 30, 2020	January 1 to June 30, 2019
Salary and other short-term employees' benefits	\$ 29,104	\$ 17,005
Benefits after retirement	216	216
Total	\$ 29,320	\$ 17,221

VIII. Pledged Assets

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

Assets	Carrying amount			Purpose of pledge item
	June 30, 2020	December 31, 2019	June 30, 2019	
Time deposits (listed in "other current assets")	\$ 3,969	\$ 3,969	\$ 2,267	Guarantee for the land leased

IX. Significant Contingent Liabilities and Unrecognized Contractual Commitments

Unused letters of credit issued

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

	June 30, 2020	December 31, 2019	June 30, 2019
Unused letters of credit issued	\$ -	\$ -	\$ 866

X. Significant Disaster Losses

None.

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

None.

XII. Others

(I) Capital management

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

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

The Group's debt-to-capital ratios as of June 30, 2020, December 31, 2019 and June 30, 2019 are as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Total Asset	\$ 12,004,507	\$ 10,480,320	\$ 9,986,384
Total liabilities	(4,370,184)	(3,139,541)	(2,963,007)
Total equity	<u>\$ 7,634,323</u>	<u>\$ 7,340,779</u>	<u>\$ 7,023,377</u>
Debt-to-capital ratio	<u>57%</u>	<u>43%</u>	<u>42%</u>

(II) Financial Instruments

1. Types of Financial instruments

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Financial assets</u>			
Financial assets mandatorily measured at fair value through profit or loss	<u>\$ 254,050</u>	<u>\$ 252,593</u>	<u>\$ 349,546</u>
Financial assets at fair value through other comprehensive income			
Designated equity instrument investment	<u>\$ 69,748</u>	<u>\$ 50,776</u>	<u>\$ 45,456</u>
Financial assets measured at cost after amortization			
Cash and cash equivalents	\$ 2,442,265	\$ 2,757,003	\$ 2,159,325
Financial assets measured at cost after amortization - current	82,964	140,906	177,274
Notes receivable	69	34	-
Accounts Receivable	1,360,617	1,256,938	1,403,394
Other receivables	83,178	82,741	44,560
Time deposits (listed in other current assets)	3,969	3,969	2,267
Refundable deposits (listed in other non-current assets)	6,016	6,261	6,401
	<u>\$ 3,979,078</u>	<u>\$ 4,247,852</u>	<u>\$ 3,793,221</u>
<u>Financial liabilities</u>			
Short-term borrowings	\$ 564,000	\$ 274,000	\$ 270,000
Short-term notes and bills payable	99,927	-	99,937
Notes payable	5,716	1,981	4,133
Accounts payable	2,562,588	2,225,909	1,460,700
Other payables	920,034	462,523	936,802
Refundable deposits (listed other non-current assets)	9,871	9,871	9,871
	<u>\$ 4,162,136</u>	<u>\$ 2,974,284</u>	<u>\$ 2,781,443</u>
Lease liabilities	<u>\$ 77,682</u>	<u>\$ 86,887</u>	<u>\$ 98,758</u>

2. Risk management policy
 - (1) The Group adopts overall risk management and control system to clearly identify, measure and control all kinds of risks, including market risk, credit risk, liquidity risk and cash flow risk, which allows the management level to effectively control and measure market risk, credit risk, liquidity risk, and cash flow risk.
 - (2) In order to ensure effective control and achieve various market risk management targets to attain optimal risk positioning, maintain adequate liquidity while collectively managing all market risks, the Group will take factors such as consideration for the overall economic environment, status of competition and market value risks.
3. Significant financial risks and degrees of financial risks
 - (1) Market Risks
 - Foreign exchange risk
 - A. The Group operates internationally and is exposed to foreign exchange risk arising from various functional currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.
 - B. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward foreign exchange contracts. The foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in foreign currencies other than the entity's functional currency.
 - C. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The currency exposure arising from the net assets of the Group's foreign operations is managed primarily through savings denominated in the relevant foreign currencies. Please refer to Note VI (I) for details.
 - D. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD) and is thus affected by the exchange rate fluctuation. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

June 30, 2020			
(Foreign currency: Functional currency)	Foreign currency (thousand)	Exchange rate	Book value (NT\$)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 97,566	29.630	\$ 2,890,881
CNY: NTD	211,088	4.191	884,670
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	\$ 56,088	29.630	\$ 1,661,887

December 31, 2019			
(Foreign currency: Functional currency)	Foreign currency (thousand)	Exchange rate	Book value (NT\$)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 120,486	29.980	\$ 3,612,170
CNY: NTD	56,049	4.305	241,291
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	\$ 47,708	29.980	\$ 1,430,286

June 30, 2019			
(Foreign currency: Functional currency)	Foreign currency (thousand)	Exchange rate	Book value (NT\$)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 104,374	31.060	\$ 3,241,856
CNY: NTD	47,943	4.521	216,750
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	\$ 24,271	31.060	\$ 753,857

- E. The monetary items of the Group have a significant impact due to exchange rate fluctuations. The total amount of all exchange (loss) benefits (including realized and unrealized) recognized for the three-month and six-month periods ended June 30, 2020 and 2019 were (NT\$31,648), NT\$19,025, (NT\$12,026) and NT\$30,800.

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

		January 1 to June 30, 2020		
(Foreign currency: Functional currency)	Range of change	Effect on (loss) profit	Effected on other comprehensive (loss) profit	
<u>Financial assets</u>				
<u>Monetary items</u>				
USD: NTD	1%	\$ 28,909	\$	-
CNY: NTD	1%	8,847		-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD: NTD	1%	(\$ 16,619)	\$	-

		January 1 to June 30, 2019		
(Foreign currency: Functional currency)	Range of change	Effect on (loss) profit	Effected on other comprehensive (loss) profit	
<u>Financial assets</u>				
<u>Monetary items</u>				
USD: NTD	1%	\$ 32,419	\$	-
CNY: NTD	1%	2,168		-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD: NTD	1%	(\$ 7,539)	\$	-

Price risk

- A. The Group's equity instruments exposed to price risk are those financial assets held at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity instruments, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- B. The Group primarily invests in equity instruments and open-end funds issued by domestic companies, and the price of such equity instruments is affected by the uncertainty of the future value of the investment target. If the prices of these equity instruments increase or decrease by 10%, with all other factors remaining unchanged, profit after tax for the six months period ended June 30, 2020 and 2019 will increase or decrease by NT\$25,405 and NT\$34,955 respectively due to gain or loss on equity instruments at fair value through profit or loss, and other comprehensive income for the same years will increase or decrease by NT\$6,975 and NT\$4,546 respectively due to gain or loss on equity instruments at fair

value through other comprehensive income.

Cash flow and fair value interest rate risk

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

(2) Credit risk

- A. The Group's credit risk is the financial loss risk due to the inability of the client or the financial instrument counterparty to perform its contractual obligations. It usually occurs when the counterparty is unable to pay off the accounts payable according to the payment terms, and is classified as contractual cash flow from debt instrument investments measured at fair value through other comprehensive profit or loss or through profit or loss measured by fair value.
- B. The Group manages their credit risk taking into consideration the entire group's concern. Banks and financial institutions only accept organizations with good credit ratings as their trade counterparties. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are based on internal or external ratings, and the use of credit limits is regularly monitored.
- C. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- D. The Group adopted the following assumptions under IFRS 9 to judge whether there is any evidence that the credit risk of financial instruments has been significantly increased after initial recognition.
If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

- E. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
- (A) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (B) The disappearance of an active market for that financial asset because of financial difficulties;
 - (C) Default or delinquency in interest or principal repayments;
 - (D) Adverse changes in national or regional economic conditions that are expected to cause a default.
- F. After the recourse procedures, the Group writes off financial assets to the extent of the amount that cannot be reasonably expected to be recovered. However, the Group will continue the legal procedures to recourse in order to secure its creditor's rights.
- G. The financial assets held by the Group that are measured at amortized cost are time deposits, repurchasable bond and restricted time deposits held in banks. The credit ratings of these banks are good, and there has been no overdue situation in the past. Moreover, considering that there is no major change in the overall economic environment, the risk of credit loss assessment is extremely low and the amount of impact on the financial statements is not large
- H. For the aging analysis of customers' accounts receivable and collateral information, please refer to the explanation in Note VI (IV). Considering the Group's right to request collateral or other guarantees for major transaction partners, the Group's accounts receivable from customers are grouped according to the characteristics of the collateral, and the simplified method is adopted to estimate the expected credit loss based on the loss rate method. Based on this evaluation, the recognized allowance losses of the Group were small as of June 30, 2020, December 31, 2019, and June 30, 2019.
- I. Changes in loss allowance for accounts receivables using the simplified approach are stated as follows:

	2020	2019
	Accounts Receivable	Accounts Receivable
January 1	\$ 14,295	\$ 4,289
Provision of impairment loss	-	10,006
June 30	<u>\$ 14,295</u>	<u>\$ 14,295</u>

(3) Liquidity Risk

- A. Cash flow forecasting is performed by each operating entity of the Group and aggregated by Group treasury. The finance department monitors the cash forecast to ensure that the Group's funds are adequate to finance its operations.
- B. Each operating entity's remaining cash in excess of its operating needs is invested in demand deposits bearing interests, time deposits, bonds sold under repurchase agreement, and marketable securities, all of which are instruments either with appropriate maturity or with sufficient liquidity so as to satisfy the said forecasting and provide sufficient position for dispatching of funds.
- C. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities categorized into relevant maturity groups, i.e. based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

June 30, 2020	<u>Within 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 564,000	\$ -	\$ -
Short-term notes and bills payable	100,000	-	-
Notes payable	5,716	-	-
Accounts payable	2,562,588	-	-
Other payables	920,034	-	-
Lease liabilities	10,000	23,222	54,620
Deposits received	-	-	9,871

Derivative financial liabilities: None.

Non-derivative financial liabilities:

December 31, 2019	<u>Within 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 274,000	\$ -	\$ -
Notes payable	1,981	-	-
Accounts payable	2,225,909	-	-
Other payables	462,523	-	-
Lease liabilities	12,685	28,440	56,605
Deposits received	-	-	9,871

Derivative financial liabilities: None.

<u>Non-derivative financial liabilities:</u>			
June 30, 2019	Within 1 year	1 to 5 years	Over 5 years
Short-term borrowings	\$ 270,000	\$ -	\$ -
Short-term notes and bills payable	100,000	-	-
Notes payable	4,133	-	-
Accounts payable	1,460,700	-	-
Other payables	936,802	-	-
Lease liabilities	13,973	37,999	58,589
Deposits received	-	-	9,871
<u>Derivative financial liabilities: None.</u>			

(III) Fair value information

- The different levels of inputs used in the valuation techniques for measuring the fair value of financial and non-financial instruments have been defined as follows:
 - Level I: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded active when a market where transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the investment in TWSE/TPEX-listed or emerging shares, beneficiary certificates and debt securities the Group are included in this category.
 - Level II: Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly.
 - Level III. Unobservable inputs for the asset or liability. The fair value of the Group's equity investment without active market is included in this category. The fair value of the Group's equity investment without active market is included in this category.
- Fair value information of investment property at cost is provided in Note VI (IX).
- The Group's financial instruments are not measured at fair value with carrying amounts approximate to their fair values, which include cash and cash equivalents, time deposits (more than three months), notes receivable, accounts receivable, other receivables, refundable deposits, short-term borrowings, short-term notes and bills payable, notes payable, accounts payable, other payables, lease liabilities (current and non-current) and guarantee deposits.
- The Group categorizes financial and non-financial instruments measured at fair value on the basis of the nature, characteristics and risks of the assets and liabilities. The related information on September 30, 2018, December 31, 2017 and September 30, 2017 is as follows:

- (1) The related information of assets and liabilities categorized by their nature is as follows:

June 30, 2020	Level I	Level II	Level III	Total
Assets				
<u>Recurring fair value</u>				
Financial assets at fair value through profit and loss				
Equity securities	\$ 82,693	\$ 2,112	\$ 35,844	\$ 120,649
Beneficiary certificates	84,775	-	-	84,775
Debt securities	48,626	-	-	48,626
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	69,748	69,748
	<u>\$ 216,094</u>	<u>\$ 2,112</u>	<u>\$ 105,592</u>	<u>\$ 323,798</u>

Financial liabilities: None.

December 31, 2019	Level I	Level II	Level III	Total
Assets				
<u>Recurring fair value</u>				
Financial assets at fair value through profit and loss				
Equity securities	\$ 81,109	\$ 2,217	\$ 35,177	\$ 118,503
Beneficiary certificates	84,404	-	-	84,404
Debt securities	49,686	-	-	49,686
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	50,776	50,776
	<u>\$ 215,199</u>	<u>\$ 2,217</u>	<u>\$ 85,953</u>	<u>\$ 303,369</u>

Financial liabilities: None.

June 30, 2019	Level I	Level II	Level III	Total
Assets				
<u>Recurring fair value</u>				
Financial assets at fair value through profit and loss				
Equity securities	\$ 196,551	\$ 1,992	\$ 16,066	\$ 214,609
Beneficiary certificates	86,506	-	-	86,506
Debt securities	48,431	-	-	48,431
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	45,456	45,456
	<u>\$ 331,488</u>	<u>\$ 1,992</u>	<u>\$ 61,522</u>	<u>\$ 395,002</u>

Financial liabilities: None.

- (2) The methods and assumptions of fair value measurement are as follows:
- A. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	TWSE/TPEX-listed and emerging stocks	Open-end fund
Market quoted price	Closing price	Net Value

- B. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.
- C. 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 according to additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
5. There was no transfer between Level 1 and Level 2 of the fair value hierarchy as at the six-month periods ended June 30, 2020 and 2019.
6. The movement on Level 3 for the six-month periods ended June 30, 2020 and 2019 is as follows:

	Equity securities	
	2020	2019
January 1	\$ 85,953	\$ 66,115
Evaluation adjustment	19,639	(4,593)
June 30	<u>\$ 105,592</u>	<u>\$ 61,522</u>

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

	June 30, 2020 Fair value	Valuation technique	Significant unobservable input value	Interval (weighted- average)	Relationship between input value and fair value
Non-derivative equity instruments:					
Unlisted shares	\$ 20,694	Comparable company analysis	Discount for lack of marketability	30%	Insufficient market liquidity; the higher the discount, the lower the fair value
Unlisted shares	69,748	Comparable company analysis	Discount for lack of marketability	40%	Insufficient market liquidity; the higher the discount, the lower the fair value
Unlisted shares	15,150	Recent transaction price	N/A	N/A	N/A
Non-derivative equity instruments:					
	December 31, 2019 Fair value	Valuation technique	Significant unobservable input value	Interval (weighted- average)	Relationship between input value and fair value
Unlisted shares	\$ 20,027	Comparable company analysis	Discount for lack of marketability	30%	Insufficient market liquidity; the higher the discount, the lower the fair value
Unlisted shares	50,776	Comparable company analysis	Discount for lack of marketability	40%	Insufficient market liquidity; the higher the discount, the lower the fair value
Unlisted shares	15,150	Recent transaction price	N/A	N/A	N/A

	June 30, 2019 Fair value	Valuation technique	Significant unobservable input value	Interval (weighted- average)	Relationship between input value and fair value
Non-derivative equity instruments:					
Unlisted shares	\$ 16,066	Comparable company analysis	Discount for lack of marketability	30%	Insufficient market liquidity; the higher the discount, the lower the fair value
Unlisted shares	45,456	Comparable company analysis	Discount for lack of marketability	40%	Insufficient market liquidity; the higher the discount, the lower the fair value

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

		June 30, 2020				
		Recognized in profit and loss		Recognized in other comprehensive profit and loss		
	Input	Change	Favorable change	Unfavorabl e change	Favorable change	Unfavorable change
Financial assets - equity instrument	Evaluation for lack of marketability	±10%	\$ 887	(\$ 887)	\$ 4,650	(\$ 4,650)

		December 31, 2019				
		Recognized in profit and loss		Recognized in other comprehensive profit and loss		
	Input	Change	Favorable change	Unfavorabl e change	Favorable change	Unfavorable change
Financial assets - equity instrument	Evaluation for lack of marketability	±10%	\$ 858	(\$ 858)	\$ 3,384	(\$ 3,384)

		June 30, 2019				
		Recognized in profit and loss		Recognized in other comprehensive profit and loss		
	Input	Change	Favorable change	Unfavorabl e change	Favorable change	Unfavorable change
Financial assets - equity instrument	Evaluation for lack of marketability	±10%	\$ 992	(\$ 992)	\$ -	\$ -

(IV) 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 in 2020 Q2. However, the Company will continue to pay attention to the development of the COVID-19 and its impact on the overall economic environment.

XIII. Supplementary Disclosures

(I) Information on significant transactions:

1. Loaning Funds to others: None.
2. Endorsements/guarantees provided to others: None.
3. Marketable Securities Held at the End of the Period (Excluding investment in Subsidiaries, Associates and Joint Ventures): Please refer to Appendix Table 1.
4. Accumulated to buy or sell the same marketable securities amount to NT\$300 million or more than 20% of the paid-up capital: None
5. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: None
6. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None
7. The amount of purchase and sales with related parties amounts to NT\$100 million or more than 20% of the paid-up capital: None.
8. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None
9. Derivative financial instrument transactions: None.
10. Significant inter-company transactions during the reporting periods: Please refer to Appendix Table 2.

(II) Information on investees

Name of investee companies, location, and other relevant information (excluding investee companies in Mainland China): Please refer to Appendix Table 3 for details.

(III) Information regarding investment in the territory of Mainland China

1. Basic information: Please refer to Appendix Table 4.
2. Significant Transactions with Investee Companies in Mainland China, Either Directly or Indirectly through a Business at Third Location: None.

(IV) Information on major shareholders

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

XIV. Operating Segment Information

(I) General information

The Group's business involves one single industry, and the chief operating decision-maker of the Company uses the Group as a whole to evaluate performance and allocate resources when performing performance evaluation and resource allocation. It is identified that the Company shall be the single reporting department.

(II) Segment information

The financial information of reportable segments provided to chief operating decision-maker is as follows:

	April 1 to June 30, 2020	April 1 to June 30, 2019
Income from external customers	\$ 3,210,628	\$ 3,036,633
Segment net profit before tax	<u>\$ 330,791</u>	<u>\$ 133,345</u>
	January 1 to June 30, 2020	January 1 to June 30, 2019
Income from external customers	\$ 6,874,358	\$ 5,660,998
Segment net profit before tax	<u>\$ 683,636</u>	<u>\$ 240,703</u>
	June 30, 2020	June 30, 2019
Segment assets	\$ 12,004,507	\$ 9,986,384
Segment liabilities	<u>\$ 4,370,184</u>	<u>\$ 2,963,007</u>

(III) Reconciliation to the segment profit/loss: None.

Elite Semiconductor Microelectronics Technology Inc. and its Subsidiaries
Securities held at the end of the period
June 30, 2020

Unit: NT\$ thousand
(Unless otherwise indicated)

Appendix table 1

Holding company	Types and names of securities	Relationship with the securities issuer	Accounting titles in statements	End of the period		Percentage of Shareholding	Fair value (Note)	Remarks
				Number of Shares	Book value (Note)			
Elite Semiconductor Microelectronics Technology Inc.	Shares of Arima Lasers Corp.	Company's subsidiary as this company's director	Financial assets at fair value through profit and loss	3,455,000	\$ 64,953	12.26	\$ 64,953	
Elite Semiconductor Microelectronics Technology Inc.	Shares of King Yuan Electronics Co., Ltd.	None	Financial assets at fair value through profit and loss	10,000	344	0.00	344	
Elite Semiconductor Microelectronics Technology Inc.	HSBC FRN Perpetual Bond	None	Financial assets at fair value through profit and loss	1,000,000	23,112	N/A	23,112	
Elite Semiconductor Microelectronics Technology Inc.	ANZ FRN Perpetual Bond	None	Financial assets at fair value through profit and loss	500,000	10,183	N/A	10,183	
Elite Semiconductor Microelectronics Technology Inc.	BGF RENMINBI BOND FUND	None	Financial assets at fair value through profit and loss	127,986	53,849	N/A	53,849	
Elite Semiconductor Microelectronics Technology Inc.	Preference shares of Turning Point Lasers Ltd.	None	Financial assets at fair value through other comprehensive income	1,000,000	34,874	8.06	34,874	
Elite Investment Services Ltd.	USD preference share - HSBC bond	None	Financial assets at fair value through profit and loss	20,000	15,331	N/A	15,331	
Elite Investment Services Ltd.	HSBC RQFII China Fixed Income Fund	None	Financial assets at fair value through profit and loss	600,000	30,926	N/A	30,926	
Charng Feng Investment Ltd.	Shares of King Yuan Electronics Co., Ltd.	None	Financial assets at fair value through profit and loss	10,000	344	0.00	344	
Charng Feng Investment Ltd.	Shares of Arima Lasers Corp.	None	Financial assets at fair value through profit and loss	907,000	17,052	3.22	17,052	
Charng Feng Investment Ltd.	Shares of Ushine Photonics Corp.	None	Financial assets at fair value through profit and loss	115,519	690	0.41	690	
Charng Feng Investment Ltd.	Shares of Brightek Optoelectric Co., Ltd.	None	Financial assets at fair value through profit and loss	90,601	1,422	0.15	1,422	
Charng Feng Investment Ltd.	Shares of M3 Technology Inc.	None	Financial assets at fair value through profit and loss	600,000	15,513	1.63	15,513	
Charng Feng Investment Ltd.	Shares of M2 Communication Inc.	None	Financial assets at fair value through profit and loss	2,000,000	5,181	7.80	5,181	
Charng Feng Investment Ltd.	Powerchip Semiconductor Manufacturing Corporation	None	Financial assets at fair value through profit and loss	1,500,000	15,150	0.05	15,150	
Charng Feng Investment Ltd.	Preference shares of Turning Point Lasers Ltd.	None	Financial assets at fair value through other comprehensive income	1,000,000	34,874	8.06	34,874	
Jie Yong Investment Ltd.	Shares of Elite Semiconductor Microelectronics Technology Inc.	Parent company	Financial assets at fair value through other comprehensive income	14,154,000	547,052	4.95	547,052	

Note: Financial asset evaluation adjustment and cumulative conversion adjustment are included.

Elite Semiconductor Microelectronics Technology Inc. and its Subsidiaries
Business Relations and Status and Amount of Critical Transactions Between the Parent Company and Its Subsidiary and among Subsidiaries
January 1 to June 30, 2020

Unit: NT\$ thousand
(Unless otherwise indicated)

Appendix table 2

No. (Note 1)	Trader's name	Counterparty	Relationship with the trader (Note 2)	Title	Amount	Terms and conditions	Percentage in consolidated total revenue or total assets (Note 3)
0	Elite Semiconductor Microelectronics Technology Inc.	Eon Silicon Solutions, Inc. USA	(1)	R&D Expenses	48,579	Note 4	0.71%

Note 1. The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

- (1) The number 0 represents the parent company.
- (2) (2) The consolidated subsidiaries are numbered in order from number 1.

Note 2. Relations with counterparty can be any one of the following three types:

- (1) The parent company to the consolidated subsidiary.
- (2) The consolidated subsidiary to the parent company.
- (3) The consolidated subsidiary to another consolidated subsidiary.

Note 3. Regarding the percentage of transaction amount to consolidated total operating revenues or total assets, it is calculated based on ending balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4. The transaction conditions are decided by the two parties through negotiation.

Note 5. Only transactions with related parties of NT\$25 million or more are disclosed, and transactions with related parties will not be disclosed separately.

Note 6. The above-mentioned transactions between the parent company and its subsidiaries and each subsidiary have been written off when preparing the consolidated financial report.

Elite Semiconductor Microelectronics Technology Inc. and its Subsidiaries
Name of investee companies, location, and other relevant information (excluding investee companies in mainland China)
January 1 to June 30, 2020

Appendix table 3

Unit: NT\$ thousand
(Unless otherwise indicated)

Investor	Name of investee	Location	Primary Business	Original investment amount		Ending shareholding			Profit/loss of the investee for the period	Investment income (loss) recognized by the Company	Remarks
				Current period-end	End of last year	Number of Shares	Percentage	Book value			
Elite Semiconductor Microelectronics Technology Inc.	Elite Memory Technology Inc.	Republic of China	Research and development, production, sales and related consulting services of integrated circuit	\$ 272	\$ 272	100,000	100	\$ 27,350	\$ 12,827	\$ 12,827	
Elite Semiconductor Microelectronics Technology Inc.	Charng Feng Investment Ltd.	Republic of China	General investment	500,000	500,000	50,000,000	100	401,565	(843)	(843)	
Elite Semiconductor Microelectronics Technology Inc.	Elite Investment Services Ltd.	British Virgin Islands	General investment	453,375	453,375	15	100	623,377	(4,344)	(4,344)	
Elite Semiconductor Microelectronics Technology Inc.	Elite Semiconductor (B.V.I.) Ltd.	British Virgin Islands	General investment	169,777	169,777	1,000	100	21,891	(4,736)	(4,736)	
Elite Semiconductor Microelectronics Technology Inc.	Jie Yong Investment Ltd.	Republic of China	General investment	270,000	270,000	3,600,000	41.86	131,156	(96)	(40)	
Elite Semiconductor Microelectronics Technology Inc.	Eon Silicon Solutions, Inc.USA	The US	Design, development and testing of products	13,304	13,304	200,000	100	2,337	3,507	3,507	
Charng Feng Investment Ltd.	3R Semiconductor Technology Inc.	Republic of China	Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade	69,407	69,407	10,000,000	100	22,262	(258)	(258)	
Charng Feng Investment Ltd.	Elite Silicon Technology Inc.	Republic of China	Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade	61,168	59,288	7,424,460	97.69	(317)	(1,017)	(998)	
Charng Feng Investment Ltd.	Canyon Semiconductor Inc.	Republic of China	International trade, electronic component manufacturing, product design, and information software services	80,337	80,337	8,350,000	40.93	31,546	(4,066)	(1,664)	
Charng Feng Investment Ltd.	Elite Innovation Japan Ltd.	Japan	Product design, wholesale and retail of electronic materials, manufacturing of electronic components, information software services and international trade	2,788	2,788	200	100	2,256	176	176	

Note 1. The foreign currency investment amount is converted according to the exchange rate on June 30, 2020.

Elite Semiconductor Microelectronics Technology Inc. and its Subsidiaries
Information regarding investment in the territory of Mainland China - Basic information
January 1 to June 30, 2020

Unit: NT\$ thousand
(Unless otherwise indicated)

Table 4

Names of investees in China	Primary Business	Paid-in Capital (Note 4)	Investment methods (Note 1)	Accumulated amount of investment remitted from Taiwan at beginning	Amount of investment remitted or recovered in current period		Accumulated amount of investment remitted from Taiwan at ending	Profit/loss of the investee for the period	The Company's percentage of ownership directly or indirectly	Investment income (loss) recognized by the Company (Note 2)	Ending book value of investment	The investment income received at the end of the current period	Remarks
					Outward remittance	Recover							
Elite Semiconductor Memory Technology (Shenzhen) Inc.	Technical consultation and service, after-sales service	\$ 1,170	(1)	\$ -	\$ -	\$ -	\$ -	\$ 593	100	\$ 593	\$ 2,511	\$ -	Note 4
Elite Semiconductor Microelectronics (Shanghai) Technology Inc.	Product design, wholesale and retail of electronic materials, information software services and international trade	5,926	(1)	-	5,926	-	5,926	113	100	113	6,165	-	Note 6
Company name		Accumulated investment from Taiwan to Mainland China at ending			Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (Note 5)			Investment amount approved by the Investment Commission MOEAIC					
Charng Feng Investment Ltd.		\$ 5,926			\$ 7,096			\$ 240,939					

Note 1. The methods for engaging in investment in Mainland China include the three following types:

- (1) Direct investment in mainland China.
- (2) Reinvest in mainland China through companies in a third area.
- (3) Other methods.

Note 2. Investment profits and losses are recognized in accordance with the financial statements that have not been reviewed by individual auditors during the same period.

Note 3. The numbers related to this table are expressed in NTD.

Note 4. The numbers related to this table are expressed in NTD.

Note 5. The subsidiary of the Company, Charng Feng Investment Ltd., obtained the amended investment amount of USD39,485.42 approved by the Investment Commission, MOEA on February 6, 2020.

Note 6. Elite Semiconductor Microelectronics (Shanghai) Technology Inc. was established on November 27, 2019 and the investment amount of USD200,000 has been approved by Investment Commission, MOEA on May 20, 2020.