



alchip



Stock Code: 3661

Alchip Technologies, Limited

2019 Annual Report

Taiwan Stock Exchange Market Observation Post System: <http://mops.twse.com.tw>
Alchip Annual Report is available at: <http://www.alchip.com/>

Printed on April 13, 2020

I. Name, Title and Contact Information for Company's Spokesperson, Acting Spokesperson, Litigious and Non-litigious Agent

Spokesperson	Deputy Spokesperson	Litigious and Non-litigious Agent
Name : Daniel Wang	Name : Johnny Shen	Name : Nancy Chan
Title : Chief Financial Officer	Title : CEO	Title : Financial Controller
Tel : 886-2-2659-9357	Tel : 886-2-2799-2318	Tel : 886-2-2799-2318
E-mail : IR@alchip.com	E-mail : IR@alchip.com	E-mail : IR@alchip.com

II. Contact Information of Company's Headquarters, Branches and Plant

Office	Address	Tel.
(I) The Company		
Alchip Technologies, Ltd.	PO Box 309, Uglan House, Grand Cayman, KY-1104, Cayman Islands	886-2-2799-2318
(II) Subsidiaries		
1. The subsidiary in Taiwan: Alchip Technologies, Inc.	9F., No.12, Wenhua St., Neihu Dist., Taipei, Taiwan 114	886-2-2799-2318
2. The branch in Taiwan: Alchip Technologies, Ltd. Taiwan Branch	9F., No.12, Wenhua St., Neihu Dist., Taipei, Taiwan 114	886-2-2799-2318
3. The subsidiary in Hong Kong: Alchip Technologies, Ltd.	Bank of America Tower, 12 Harcourt Road Central, Hong Kong	852-2522-2922
4. The sub-subsidiary in Shanghai: Alchip Technologies, Ltd. (Shanghai)	Registered Address: Room 632-19, 2 F., No. 351, Guoshoujing Rd., Zhangjiang Hi-Tech Park, Shanghai Business Address: 11F, East tower Greenland Center, 596 Middle Longhua Road, Shanghai, China 200032	86-21-5235-0999
5. The subsidiary in Japan: アルチップ・テクノロジーズ Co., Ltd. (Alchip Technologies, K.K.)	10F Shin-Yokohama Square Bldg, 2-3-12 Shin-Yokohama, Kouhoku Yokohama Kanagawa Japan, 222-0033	81-45-470-1090
6. The subsidiary in U.S.: AlChip Technologies, Inc.	1900 McCarthy Blvd, Suite 106, Milpitas, CA 95035	1-408-943-8296
7. The sub-subsidiary in Wuxi: Alchip Technologies (Wuxi) Inc.	4F, Building A5, No.777, Jianzhuxi Road, Binhu District, Wuxi, Jiangsu, P.R.China	86-510-8512-0332
8. Alchip's BVI incorporated subsidiary: Alchip Investment Inc.	Portcullis TrustNet Chambers, 4th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, Birtish Virgin Islands VG1110	886-2-2799-2318
9. The sub-subsidiary in Hefei: Alchip Technologies (Hefei) Inc.	Room 605-610, Building C4, Innovation Industrial Park, No.800 West Wangjiang Road, Hefei, P.R.China	86-551-65655001
10. The sub-subsidiary in Jinan: Alchip Technologies (Jinan) Inc.	1F, Building B, Qilu Software Park, No.1000 ShunHua Road, High-tech Development Zone, Ji'nan City, P.R.China	86-531-89017990

III. Members of the Board of Directors

Title	Name	Nationality	Academic Qualifications and Principal Work Experience	
Chairman	Kinying Kwan	U.S., R.O.C.	Academic Qualifications	<ul style="list-style-type: none"> • B.S. in Electronic Engineering, University of Illinois, U.S.
			Work Experience	<ul style="list-style-type: none"> • CEO of the Company • Founder of Altius Solutions
Director	Herbert Chang	R.O.C.	Academic Qualifications	<ul style="list-style-type: none"> • M.S. in Management Science, National Chiao Tung University
			Work Experience	<ul style="list-style-type: none"> • General Manager of Mutto Optronics Corporation
Director	Johnny Shyang-Lin Shen	U.S., R.O.C.	Academic Qualifications	<ul style="list-style-type: none"> • B.S. of Electronic Engineering, California State University, Los Angeles, U.S.
			Work Experience	<ul style="list-style-type: none"> • COO of the Company • GM of China Business Unit and VP of SoC Design Div. of the Company
Director	Daniel Wang	R.O.C.	Academic Qualifications	<ul style="list-style-type: none"> • MBA of Baruch College-The City University of New York, U.S.
			Work Experience	<ul style="list-style-type: none"> • Representative of Fubon Securities Co., Ltd. Shanghai Representative Office
Independent Director	Mao-Wei Hung	R.O.C.	Academic Qualifications	<ul style="list-style-type: none"> • Ph.D., Finance, Northwestern University, U.S.
			Work Experience	<ul style="list-style-type: none"> • Professor, Department of International Business, National Taiwan University • Dean of College of Management, National Taiwan University • Chairman of Board, Taiwan Academy of Banking and Finance
Independent Director	Brian Chiang	R.O.C.	Academic Qualifications	<ul style="list-style-type: none"> • B.S. of Business Administration, University of Southern California, U.S.
			Work Experience	<ul style="list-style-type: none"> • Managing Director of Walden International Taiwan Co., Ltd.
Independent Director	Binfu Chuang	U.S.	Academic Qualifications	<ul style="list-style-type: none"> • M.S. in Electrical Engineering, Oregon State University, U.S.
			Work Experience	<ul style="list-style-type: none"> • Director and General Manager of Shanghai SyncMOS Semiconductor Co., Ltd.

IV. Contact information of Share Transfer Agent

Name: Transfer Agent Department of CTBC Bank
Address: 5F., No. 83, Section 1, Chongqing S. Rd., Zhongzheng District, Taipei City 100, Taiwan
Tel: 886-2-6636-5566 Website: <https://www.ctbcbank.com>

V. Contact information of Auditing CPA

CPA Firm: Deloitte & Touche
Name of CPA: Yi-Wen Wang and Cheng-Ming Lee
Address: 20F., No. 100, Songren Rd., Xinyi District, Taipei 11073, Taiwan
Tel: 886-2-2725-9988 Website: <http://www.deloitte.com.tw>

VI. Names of stock exchanges where foreign securities are listed and inquiry on the information of foreign securities: None.

VII. The Company's web address: <http://www.alchip.com>

Notice to readers

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

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I. Letter to Shareholders

Dear Shareholders,

With the rapid development of new applications such as AI, HPC and IoT, the global semiconductor market has become more competitive over the last few years, and the industry is experiencing a strong demand for high-end process application chips. Alchip has performed quite smoothly in this giant wave in 2019. We have completed a great number of HPC design projects. A few large orders of AI application projects are also expected to enter the mass production in 2020. In general, Alchip achieved an outstanding performance in AI and HPC markets in 2019. According to the track records, the majority of the design projects for Alchip have been migrating from 16nm to 7nm. On the customer side, the demand of HPC market has ushered in a rapid growth for the customers in Great China region. For the entire year of 2019, Alchip has taped out 7nm design projects. The second generation 16nm project of CPU chips has been successfully in the mass production in the fourth quarter. In conclusion, Alchip achieved a great success in the year of 2019.

On the R&D front, Alchip maintains its leading position within the ASIC design service industry. About 89% revenue of Alchip came from advanced process nodes (28nm and more advanced). For business development, we kept on partnering with tier-one system customers, and completed a number of 16nm and 7nm designs in fields such as artificial intelligence, networking and high performance computer. For the 5nm design projects, Alchip had received a few design cases for the big firms in 2019.

To analyze by sales territories, with the rapid growth of high demands in the HPC market, China was the first largest source of revenue. With the continuous support from the system customers in Japan, and with the high demands for AI application in North America, Japan and North America were the second largest source of revenue for Alchip. Benefit from the system customers, the Asia Pacific Region except for China, Japan and North America emerges as Alchip's third largest source of revenue.

Financial Performance

On New Taiwan Dollars (NTD), Alchip's 2019 total revenue came at NTD4,332M, 25.54% increase YoY from NTD3,451M in 2018. The 2019 net income was NTD434M, 68.45% increase YoY from NTD257M in 2018. On US Dollars (USD) basis, the 2019 revenue came at USD140M, 22.44% increase YoY, and the net income was USD14M, 64.29% increase YoY. For other 2019 financial figures, the gross margin was 37.19%, operating margin was 10.00%, and the ROA and ROE were 9.78% and 13.93%, respectively.

Technological Developments

Given the increasing design demand for advanced process nodes from customers, Alchip had kept on investing in our design capability for advanced process nodes and customized IPs in 2019. Following the remarkable record of AI and HPC design cases, we have a large number of 7nm design projects which are currently working in progress. For the 5nm designs, Alchip has received a few cases from system customers in 2019. Alchip will continuously fortify our position within the advanced process node competition arena.

Corporate Developments

In order to further enhance our engineering resource and business development, Alchip continues to expand its global influence to Great China region and set up an office in Jinan, China in 2018 and our new operation office in North America in 2019. For the strong demands of the Greater China and North America markets, Alchip is always ahead of the curve, and we are devoted to develop more advanced process design technology to customers. With our advanced technology and professional design ability, we expect to become the first leading brand in the ASIC industry for the future.

Outlook for the future

Looking into 2020, Alchip will continue to explore market opportunities through our strengths in ability of advanced process nodes design and firmed strategic alliance with major IP partners. We believe new

applications such as high performance computing, artificial intelligence and IoT, etc. will be our future main focus as we already saw signals of business opportunities coming. Furthermore, from the geographic perspective, we will endeavor to post significant potential of ASIC business opportunity in North America market. Last but not least, we believe that through our core competence of providing industry leading service for advanced processing nodes, Alchip will be able to post strong revenue and profit growth in 2020, and we will continuously create value to both our customers and shareholders.

Finally, thanks once again with sincerity for sustained efforts of all employees and long-term support and encouragement from shareholders to the Company. We would like to extend our deepest gratitude to all of you !

Best wishes for good health and prosperity!



Kinying Kwan
Chairman

II. Company Profile

2.1 Date of Establishment and Company Introduction

Founded in British Cayman Islands on February 27, 2003 by the core technical team of the well-known System-on-Chip company from Silicon Valley under the Chairman Kinying Kwan's lead, Alchip Technologies, Limited (hereinafter referred to as the "Company" or "Alchip") is a leading provider of silicon design and manufacturing solutions for system companies developing high-complexity and high-volume application-specific integrated circuit (ASIC) and System-on-Chip (SoC) design. Headquartered in Taipei, Taiwan, it has established an ASIC manufacturing center in Hsinchu. Based on the consideration of global development policy, the Company built up subsidiaries in China, Japan, and America (hereinafter referred as the "Group"). The Company had a total of 404 employees in December 2019. The Group's management team has operated and deeply rooted in IC design services for years. The team is composed of SoC design experts from U.S. Silicon Valley and Japan with an average of over 20 years of management experience in the semiconductor industry and their capability for high-end process and chip design better than other competitors' in the industry. In just three years after its establishment, the Company had completed many ASIC design cases from 0.13um down to 65nm and put into mass production. In 2009, it started mass-production of 40 nm design cases for customers. Stepped into 28nm design cases in 2013, it began offering customers the latest 16nm process design service in 2014. The Company completed the 14nm design case and had wafer start successfully in September 2015. Moreover, several 28nm and 16nm design of super computer cases were completed in 2016 and 2017. At the end of 2019, Alchip has completed, prototyped, and began the volume production of a few 7nm design of AI and HPC cases.

Alchip focuses on ASIC and SoC solutions for deep submicron process (28nm and below). The goal is to help system customers complete low-cost and high-complexity chip design in the shortest time and to speed up the time to market for products of our customers. The Company has completed more than 400 design cases of high-end process SoC since its establishment. The three products application fields are AI/HPC/communication network equipment, other consumption electronic products (high definition television, digital cameras, entertainment systems, mobile broadband, etc.) as well as niche products (medical devices, monitoring systems, etc.). Alchip creates impressive results in the application fields as described above, which makes it the first-choice IC design partner among many world-class system manufacturers.

2.2 Company Milestones

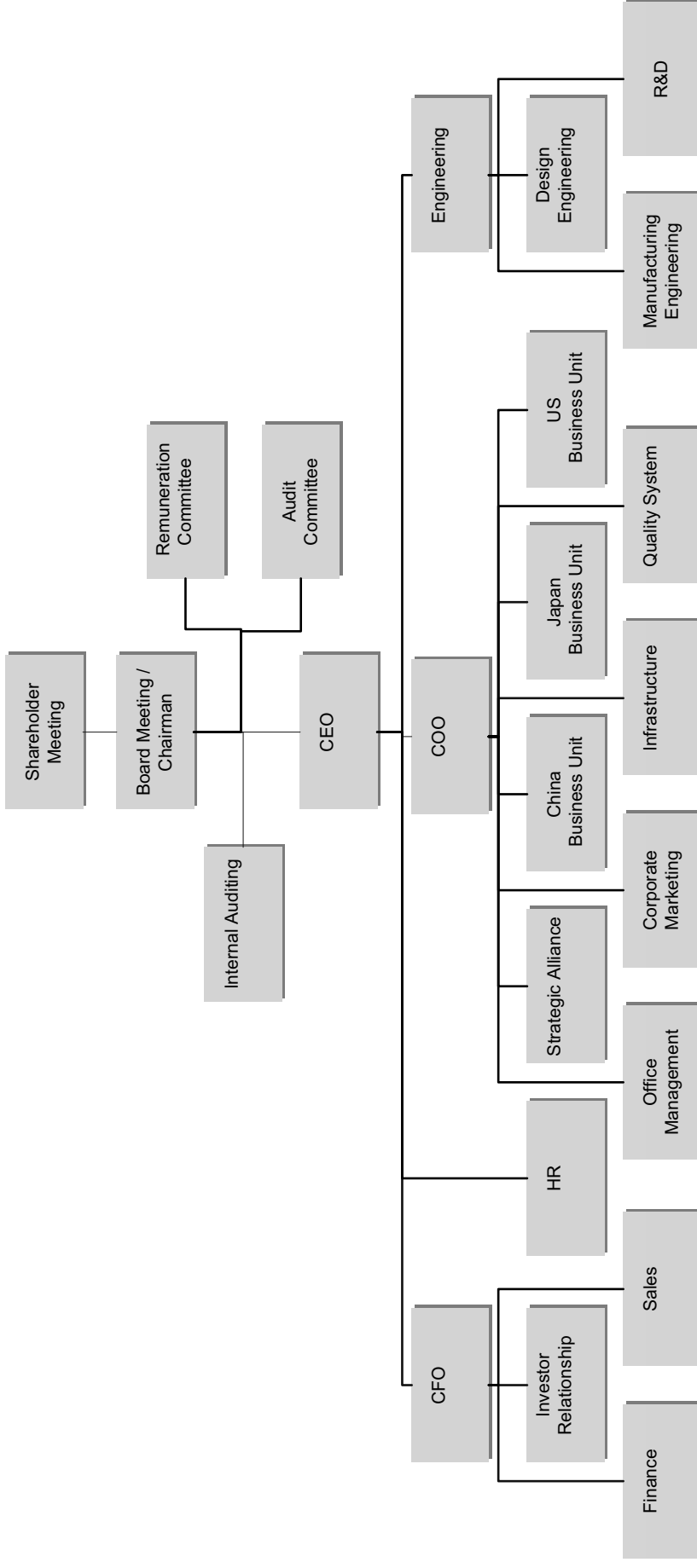
Aug. 2002	The subsidiary was established in Hong Kong.
Sep. 2002	The subsidiary was established in Shanghai.
Feb. 2003	Established an exempted company in the Cayman Islands.
Apr. 2003	Alchip Technologies (Cayman) invested in the subsidiaries in Hong Kong and Shanghai through share exchange.
May 2003	The subsidiary was established in U.S.
Aug. 2003	The first 0.13 um chip design was completed.
Feb. 2004	The subsidiary was established in Japan.
Jul. 2004	Joined the TSMC's Design Center Alliance (DCA).
Sep. 2004	Obtained the order for 0.13 um, 16M gate design from Japan's big firm M Company.
Nov. 2004	Completed the first SoC design for 90 nm, 6M gate high-end consumer electronics, and entered mass production in the second half of 2005.
Jan. 2005	The subsidiary was established in Taiwan.
Apr. 2005	Won the order for 90 nm, 500MHz high-speed calculation SoC design and became the first product across the globe to enter 90G mass production at TSMC.
Aug. 2005	The monthly shipment reached 1 million units of System on Chip (SoC).
Jun. 2006	Developed the 65 nm ARM 1176 embedded multi-core application processor.
Sep. 2006	Won the order for digital cameras SoC design from Japan's system big firm.
Nov. 2006	Passed ISO9001 certification.
Dec. 2006	The monthly shipment reached 2 million units of SoC.
Feb. 2007	Won the order for 65 nm SoC design.
May 2007	Won the order for HDTV SoC design from Japan's system big firm.
Jun. 2007	The monthly shipment reached 2.5 million units of SoC.
Jul. 2007	Adopted the Verigy V93000 Pin-Scale 800 system as its new-generation chip testing machine.
Jan. 2008	Won the order for mobile communication devices SoC design from a system big firm.
Feb. 2008	Got ARM authorization.
Mar. 2008	Won the order for digital TV SoC design from Japan's system big firm.
Mar. 2008	Joined the Cadence (Power Forward Initiative, PFI) Alliance.
Apr. 2008	Joined the ARM Connected Community to become an ARM partner.
May 2008	Became a partner of packaging technology with SONY Semiconductor Group.
Jun. 2008	Alchip was named as the "China's 10 Best Service IC Design House" by 2008 "Electronic Engineering Times".
Aug. 2008	Adopted the Synopsys Eclipse's low-power design solutions.
Oct. 2008	Mass-produced 65 nm turnkey solution.
Nov. 2008	Won the first 65 nm design case for turnkey solution.
Dec. 2008	Alchip was awarded the special honor to be a "Green Partner" of a Japan's system big firm.
Dec. 2008	Set up heat flow and automated sorting machine.
Feb. 2009	Took part in the ebeam Initiative.
Apr. 2009	Alchip was elected to one of TSMC's global top 9 members of VCA.
Dec. 2009	The Company mass-produced 55 nm turnkey solution.
Dec. 2009	Completed the 40 nm design case for Mobile Game of a system big firm.
Mar. 2010	The monthly shipment reached 2.5 million units of SoC.
Oct. 2010	Completed the 32 nm application design case for HDTV of a system big firm.
Dec. 2010	The accumulated shipment of 55 nm design cases exceeded 10 million units of SoC.
Jan. 2011	Set up a UF3000 Wafer Prober.
Mar. 2011	Completed the 55 nm application design case for Tablet PC.
Apr. 2011	The accumulated shipment of 55 nm design cases exceeded 18 million units of SoC.
Jul. 2011	Alchip's Headquarters moved to Solar Technology Square, Taipei Neihu Technology Park.
Sep. 2011	Completed the 40 nm design case for imaging equipment.
Dec. 2011	Passed ISO 9001 extended authentication.
Feb. 2012	Gained the special honor to be a "2011 Best Supplier of the Year Award" of a Japan's big firm.
Mar. 2012	Won the order for 28 nm SoC design.
May 2012	Alchip's shipments in cooperation with ASE Group hit 50 million units of SoC.
Aug. 2012	The subsidiary was established in Wuxi China.
Sep. 2012	Completed the 28 nm design case for Mobile Game of a system big firm.
Dec. 2012	Alchip was awarded the special honor to be the Deloitte Technology Fast 500 Asia Pacific.
Dec. 2012	The subsidiary in Japan passed ISO9001 certification.

Jun. 2013	Won the No. 1 in the annual evaluation on partners of a Japan's big firm.
Jul. 2013	Completed the 28 nm design case for Bitcoin mining machine.
Aug. 2013	Completed the 40 nm design case for high-efficiency imaging equipment.
Sep. 2013	Completed the 28 nm design case for processor (supercomputer).
Nov. 2013	Passed ISO9001 certification.
Feb. 2014	Completed the 20 nm design case for Bitcoin mining machine.
May 2014	Completed the 28 nm design case for medical device of a Japan's big firm.
Jun. 2014	Won the No. 1 in the annual evaluation on partners of a Japan's big firm.
Jun. 2014	Completed the 28 nm design case for Litecoin mining machine.
Sep. 2014	Completed the 28 nm design case for entertainment machine of a Japan's big firm.
Oct. 2014	The Company's shares were publicly listed on the Taiwan Stock Exchange.
Jan. 2015	Alchip's BVI incorporated subsidiary and Alchip's Taiwan Branch were established.
Feb. 2015	Completed the 16 nm design case for Bitcoin mining machine.
Jul. 2015	Completed the 28 nm design case for high-efficiency imaging equipment of a Korea's firm.
Sep. 2015	Completed the 14 nm design case for Bitcoin mining machine.
Feb. 2016	Completed the 28 nm design case for imaging equipment of a Japan's big firm.
Jul. 2016	Completed the 28 nm design case for networking equipment of a China's big firm.
Oct. 2016	The subsidiary was established in Hefei China.
Dec. 2016	Completed the 16 nm design case for HPC equipment of a Japan's big firm.
Jan. 2017	Completed the 16 nm design case for networking equipment of a China's big firm.
Feb. 2017	Completed the 16 nm design case for high performance computer of a China's big firm.
Aug. 2017	The office was established in Guangzhou China.
Jan. 2018	Completed 7nm SoC Design for Bitcoin Mining Machines.
Apr. 2018	The subsidiary was established in Jinan China.
Oct. 2018	Completed 12nm SoC Design for AI application.
Mar. 2019	Completed 16nm SoC Design for AI application.
Jun. 2019	Expand NA business, new office established.
Sep. 2019	Completed the 16nm design case for high performance computing (CPU) of a China's big firm.
Dec. 2019	Completed 16nm SoC Design for consumer automotive application.
Jan. 2020	Completed the 7nm design case for AI application of a China's big firm.
Feb. 2020	Completed the 12nm design case for networking application of a Japan's big firm.
Feb. 2020	Completed 16nm SoC Design for networking application.
Feb. 2020	Completed the 16nm design case for consumer automotavie application of a US's big firm.

III. Corporate Governance Report

3.1 Organization

3.1.1 Organizational chart



3.1.2 Major corporate functions

Department Name	Responsibilities
Finance	Responsible for the Company's fund allocation and accounting treatments.
Investor Relationship	<ol style="list-style-type: none"> 1. Handling all matters relating to the Taiwan Stock Exchange. 2. Make routine communications with investors (natural persons and juridical persons). 3. Hold Investment Conferences for potential investors. 4. Invite investors to participate in negotiation conferences.
Strategy Alliance	<ol style="list-style-type: none"> 1. Develop and maintain partnerships with strategic suppliers. 2. Negotiate the target price with suppliers to provide pre-sales support for relevant departments. 3. Develop new suppliers or introduce competitive / high-end technologies from current suppliers to achieve the cost-effectiveness. 4. Develop and implement all procurement policies and ensure efficient operations of procurement and organizational interests.
Corporate Marketing	Responsible for all matters relating to the Company's global marketing.
Design Engineering	Complete the design realization from RTL or netlist to GDSII for customers.
R&D	<ol style="list-style-type: none"> 1. Provide design SOP, flow & methodology. Establish SoC design platform. 2. Circuit & customization. Define and optimize design SOP, flow & methodology. 3. Develop analog/mixed-signal silicon intellectual property. Customize high-performance/low-power digital circuit. 4. Provide customized circuit design services and technical support for business units. Develop analog/mixed-signal silicon intellectual property. 5. Provide 2.5D/3D chip design solution and technical support to business units.
Manufacturing Engineering	<ol style="list-style-type: none"> 1. Develop and complete R&D direction and objectives of the Company's production technologies. 2. Provide advanced testing and packaging and solutions for product / component engineering.
Japan Business Unit	Japan Business development, customer services and project management of business units.
US Business Unit	US Business development, customer services and project management of business units.
China Business Unit	China Business development, customer services and project management of business units.
Sales	Business development and customer services.
Quality System.	Responsible for the planning, implementation and management of the Company's quality policy.
Infrastructure	Responsible for the planning, implementation and management of information operations.
Internal Auditing.	Assist the Board of Directors, CEO, and management in the examination and assessment for the internal control system, measure the efficiency and effectiveness of operations, and provide timely proposals for improvement as the basis for amendment on the internal control systems so as to ensure its sustainable and effective operation.
Human Resources Management	Human Resources management and development.
Office Management	Control the whole administrative management such as the Company's administration & general affairs, and safety & hygiene.

3.2 Information on the Company's Directors, Supervisors, General Managers, Vice Presidents, Deputy Managers and Heads of All the Company's Divisions and Branches

3.2.1 Information on Directors

April 13, 2020

Title	Nationality	Name	Gender	Date Elected	Term of Office	Date of First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Academic Qualifications & Major Experience	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		Remark	
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name		Relation
Chairman	U.S.A, R.O.C.	Kinying Kwan	Male	06/21/2019	3	02/27/2003	680,000	1.13%	606,000	0.99%	0	0%	0	0%	Academic Qualifications: ■ B.S. in Electronic Engineering, University of Illinois, U.S. Work Experience: ■ CEO of the Company Founder of Altius Solutions	■ Director of the Company's subsidiary in Taiwan ■ Director of the Company's subsidiary in Japan ■ Director of the Company's subsidiary in U.S. ■ Director of the Company's subsidiary in Hong Kong				
Director	U.S.A, R.O.C.	Johnny Shyang-Lin Shen	Male	06/21/2019	3	05/18/2011	1,041,652	1.73%	1,291,652	2.11%	0	0%	0	0%	Academic Qualifications: ■ B.S. in Electronic Engineering, California State University, Los Angeles, U.S. Work Experience: ■ COO of the Company ■ GM of China Business Unit and VP of SoC Design Div. of the Company	■ GM of the Company's subsidiary in Taiwan ■ Managerial Officer of the Company's branch in Taiwan ■ Supervisor of the Company's sub-subsidiary in Wuxi ■ Supervisor of the Company's sub-subsidiary in Hefei ■ Supervisor of the Company's sub-subsidiary in Jinan			None	None
Director	AUS.	Benjamin Jim-Ping Ng (Note 1)	Male	-	-	-	-	-	-	-	-	-	-	-						

Director	R.O.C.	Herbert Chang	Male	06/21/2019	3	04/09/2003	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	Work Experience:	<ul style="list-style-type: none"> ■ M.S. in Management Science, National Chiao Tung University ■ General Manager of Muto Optronics Corporation 	<ul style="list-style-type: none"> ■ Director of Monolithic Power Systems, Inc. ■ Director (Legal Representative) of SHANGHAI SIHE STAINLESS STEEL PRODUCTS CO., LTD. ■ Director (Legal Representative) of CS Solutions Technology Ltd. ■ Director (Legal Representative) of Sky Tech ■ Chairman of Cheng-Hsin Consultant, Co, Ltd. ■ Director of Tronpy Co., Ltd ■ Director of TCERA CO., LTD. ■ Director (Legal Representative) /Chairman of Midastek ■ Director (Legal Representative) of Microelectronics Inc. ■ Director (Legal Representative) of Moregeek Entertainment, Inc. ■ Director of vTradEx Information Technology (Shanghai) Co., Ltd ■ Director of Moregeek Technology Holding, Inc. ■ Director of The News Lens Co., Ltd. ■ Director of Walden Greater China Ventures, Ltd. ■ Director of Zombot Studio Inc. 	None	None	None
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Director	R.O.C	Daniel Wang (Note 2)	Male	06/21/ 2019	3	06/21/2019	50,000	0.08%	50,000	0.08%	0	0%	0	0%	0	0%	0	0%	0	0%	Work Experience:	<ul style="list-style-type: none"> ■ MBA of Banach College-The City University of New York, U.S. ■ Representative of Fubon Securities Co., Ltd. Shanghai Representative Office ■ Ph.D. Finance, Northwestern University, U.S. ■ M.A. in Economics, University of Wisconsin-Madison, U.S. ■ B.A. in Economics, National Taiwan University ■ Professor, Department of International Business, National Taiwan University ■ Dean of College of Management, National Taiwan University ■ Chairman of Director, Taiwan Academy of Banking and Finance 	<ul style="list-style-type: none"> ■ Director of Alehip's BVI incorporated subsidiary ■ Director of the Company's sub-sub-sidiary in Wuxi ■ Director of the Company's sub-subsidiary in Hefei ■ Director of the Company's sub-subsidiary in Jinan ■ Professor of International Business Department, National Taiwan University ■ Independent Director of Mutuo Optronics Corporation ■ Independent Director of Fubon Securities Co., Ltd. 	None	None	None	None
Independent Director	R.O.C.	Mao-Wei Hung	Male	06/21/ 2019	3	11/05/ 2010	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	Work Experience:	<ul style="list-style-type: none"> ■ B.S. in Business Administration, University of Southern California, U.S. ■ Managing Director of Walden 	<ul style="list-style-type: none"> ■ Managing Director of Walden International Taiwan Co., Ltd. 	None	None	None	None
Independent Director	R.O.C.	Brian Chiang	Male	06/21/ 2019	3	11/05/ 2010	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	Work Experience:	<ul style="list-style-type: none"> ■ B.S. in Business Administration, University of Southern California, U.S. ■ Managing Director of Walden 	<ul style="list-style-type: none"> ■ Managing Director of Walden International Taiwan Co., Ltd. 	None	None	None	None

Independent Director	U.S.A. R.O.C.	Binfu Chuang	Male	06/21/ 2019	3	11/25/ 2010	0	0%	0	0%	0	0%	0	0%	0	0%	Academic Qualifications: Work Experience:	International Taiwan Co., Ltd. M.S., Oregon State University, U.S. B.S., National Chiao Tung University Director and General Manager of Shanghai SyncMOS Semiconductor Co., Ltd.	None	None	None	None
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Note 1: Director, Mr. Benjamin Jin-Ping Ng resigned on June 21, 2019.

Note 2: CFO, Mr. Daniel Wang was elected as Director on June 21, 2019.

Professional qualifications and independence analysis of Directors

April 13, 2020

Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience												Independence Criteria(Note)						Number of Other Taiwanese Public Companies Concurrently Serving as an Independent Director			
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	✓	✓	✓		✓	✓	✓
Kinying Kwan			✓								✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	0
Herbert Chang			✓							✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	0
Benjamin Jin-Ping Ng (Note 2)			-																			-
Johmy Shyang-Lin Shen			✓								✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	0
Daniel Wang (Note 3)			✓								✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	0
Mao-Wei Hung	✓										✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	2
Brian Chiang			✓								✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	0
Binfu Chuang			✓								✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	0

Note 1 : Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. (However, in cases where the person is an independent director of the company, its parent company, or any subsidiary, or the subsidiary which belongs to the same parent company as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it does not apply.)
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a managerial officer included in the 1st item above or a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons included in the 2nd or 3rd item above.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings or the representative who is appointed based on 1 or 2 in Article 27 of the Company Act. (However, in cases where the person is an independent director of the company, its parent company, or any subsidiary, or the subsidiary which belongs to the same parent company as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it does not apply.)
6. Not a director, supervisor or employee of other company controlled by the same person when more than half of the company's director seat or voting shares. (However, in cases where the person is an independent director of the company, its parent company, or any subsidiary, or the subsidiary which belongs to the same parent company as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it does not apply.)
7. Not a director, supervisor or employee of other companies or institutions who is the same person or spouse with the company's chairman, General Manager or equivalent. (However, in cases where the person is an independent director of the company, its parent company, or any subsidiary, or the subsidiary which belongs to the same parent company as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it does not apply.)
8. Not a director, supervisor, managerial officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company. (However, if a specific company or institution holds more than 20% but not more than 50% if the total issued shares of the company, and the independent directors set by the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this law or local laws and regulations.)
9. Not a professional individual who, or an owner, partner, director, supervisor, or managerial officer and their spouse of a sole proprietorship, partnership, company, or institution that, provides audit or business, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company that have received cumulative remuneration which is not exceeding NT\$500,000 in past two years. Except for members of the remuneration committee, the public acquisition review committee or the special committee on mergers and acquisitions that perform their functions in accordance with the relevant laws of the Securities and Exchange Act or Business Mergers And Acquisitions Act.
10. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
11. Not been a person of any conditions defined in Article 30 of the Company Law.
12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Note 2: Director, Mr. Benjamin Jin-Ping Ng resigned on June 21, 2019.

Note 3: CFO, Mr. Daniel Wang was elected as Director on June 21, 2019.

3.2.2 Informantion of General Managers, VPs, Deputy General Managers and Heads of All the Company's Divisions and Branches

April 13, 2020

Title	Nationality	Name	Gender	Date of Inauguration	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Academic Qualifications & Major Experience	Position(s) Held Concurrently in any Other Company	With Spouse or Relative Within the Second Degree of Kinship who is a Managerial Officer		Remark
					Shares	Holding Percentage	Shares	Holding Percentage	Shares	Holding Percentage			Title	Name	
CEO	U.S., R.O.C.	Johnny Shyang-Lin Shen	Male	01/01/2010	1,291,652	2.11%	0	0%	0	0%	<ul style="list-style-type: none"> Academic qualifications: <ul style="list-style-type: none"> ■ B.S. in Electronic Engineering, California State University, Los Angeles, U.S. Work experience: <ul style="list-style-type: none"> ■ COO of the Company ■ GM of China Business Unit and VP of SoC Design Div., the Company 	<ul style="list-style-type: none"> ■ GM of the Company's subsidiary in Taiwan ■ Managerial Officer of the Company's branch in Taiwan ■ Supervisor of the Company's sub-subsubsidiary in Wuxi ■ Supervisor of the Company's sub-subsubsidiary in Hefei ■ Supervisor of the Company's sub-subsubsidiary in Jnan 	None	None	None
COO	China	Jacky Ni (Note 1)	Male	-	-	-	-	-	-	-	-	-	-	-	-
Sales VP of Japan Business Unit	Japan	Kozo Fujita (Note 2)	Male	-	-	-	-	-	-	-	-	-	-	-	-
GM of Japan Business Unit	Japan	Junichiro Hosaka	Male	07/02/2009	40,000	0.07%	0	0%	0	0%	<ul style="list-style-type: none"> Academic qualifications: <ul style="list-style-type: none"> ■ B. A. in Economics, YOKOHAMA National University Work experience: <ul style="list-style-type: none"> ■ Chief Financial Officer of the Company ■ Chief Financial Officer of Inno Micro Corporation 	<ul style="list-style-type: none"> ■ Director of the Company's subsidiary in Japan 	None	None	None
GM of China Business Unit	R.O.C.	Andy Lin	Male	11/11/2016	159,167	0.26%	0	0%	0	0%	<ul style="list-style-type: none"> Academic qualifications: <ul style="list-style-type: none"> ■ MBA, University of Oxford ■ B.S. in Business Administration, National Taiwan University Work experience: <ul style="list-style-type: none"> ■ VP of China Business Unit, the Company 	<ul style="list-style-type: none"> ■ Chairman and GM of the Company's sub-subsubsidiary in Wuxi ■ Chairman and GM of the Company's sub-subsubsidiary in Hefei ■ Chairman and GM of the Company's sub-subsubsidiary in Jnan 	None	None	None

Title	Nationality	Name	Gender	Date of Inauguration	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Academic Qualifications & Major Experience	Position(s) Held Concurrently in any Other Company	With Spouse or Relative Within the Second Degree of Kinship who is a Managerial Officer		Remark
					Shares	Holding Percentage	Shares	Holding Percentage	Shares	Holding Percentage			Title	Name	
											<ul style="list-style-type: none"> ■ Sales Manager of Logitech International S.A. 	<ul style="list-style-type: none"> ■ Chairman and GM of the Company's subsidiary in Shanghai 			
GM of US Business Unit	Japan	Hiroyuki Nagashima (Note 3)	Male	03/15/2019	0	0%	0	0%	0	0%	<ul style="list-style-type: none"> Academic qualifications: ■ B.S in Computer Science, Tokyo University of Science Work experience: ■ GM of Japan Business Unit, the Company ■ Senior Manager of Cadence Design System 		None	None	None
Sr. VP of Design Engineering	R.O.C.	Leo Cheng	Male	08/15/2012	109,026	0.18%	0	0%	0	0%	<ul style="list-style-type: none"> Academic qualifications: ■ M.S. in Electronic Engineering, University of Southern California, U.S. Work experience: ■ Director, Design Engineering Div. of the Company 	<ul style="list-style-type: none"> ■ Director of the Company's sub-subsiary in Wuxi ■ Director of the Company's sub-subsiary in Hefei ■ Director of the Company's sub-subsiary in Jinan 	None	None	None
Sales VP	R.O.C.	Robert Chang	Male	11/03/2017	10,000	0.02%	0	0%	0	0%	<ul style="list-style-type: none"> Academic qualifications: ■ B.S. in Business Administration, Soochow University Work experience: ■ AP BU Director of the Company 	None	None	None	None
CFO	R.O.C.	Daniel Wang	Male	12/29/2011	50,000	0.08%	0	0%	0	0%	<ul style="list-style-type: none"> Academic qualifications: ■ MBA of Baruch College-The City University of New York, U.S. Work experience: ■ Representative of Fubon Securities Co., Ltd. Shanghai Representative Office 	<ul style="list-style-type: none"> ■ Director of Alchip's BVI incorporated subsidiary ■ Director of the Company's sub-subsiary in Wuxi ■ Director of the Company's sub-subsiary in Hefei ■ Director of the Company's sub-subsiary in Jinan 	None	None	None

Title	Nationality	Name	Gender	Date of Inauguration	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Academic Qualifications & Major Experience	Position(s) Held Concurrently in any Other Company	With Spouse or Relative Within the Second Degree of Kinship who is a Managerial Officer		Remark
					Shares	Holding Percentage	Shares	Holding Percentage	Shares	Holding Percentage			Title	Name	
Financial Controller	R.O.C.	Nancy Chan	Female	09/18/2004	54,000	0.09%	0	0%	0	0%	Academic qualifications: ■ M.S. in Risk Management, University of Reading, U.K. ■ B.S. in Accounting, National Taiwan University Work experience: ■ Deputy Manager of Deloitte & Touche	■ Director of Alechip's BVI incorporated subsidiary	None	None	None
VP of Strategy Alliance	R.O.C.	Peter Teng (Note 4)	Male	03/15/2019	500	0.00%	0	0%	0	0%	Academic qualifications: ■ B.S in Computer Science, University of Toronto Work experience: ■ Sr. Director of Strategic Alliance of the Company	None	None	None	None

Note 1 : Mr. Jacky Ni resigned from COO on March 15, 2019.

Note 2 : Mr. Kozo Fujita is no longer as an insider as of March 15, 2019.

Note 3 : Mr. Hiroyuki Nagashima becomes an insider as of March 15, 2019.

Note 4 : Mr. Peter Teng becomes an insider as of March 15, 2019.

3.2.3 Remuneration of Directors, Supervisors, General Managers and Vice Presidents in the most recent year

A. Remuneration of Directors

Unit : NT\$ thousand

Title	Name	Remuneration						Relevant Remuneration Received by Directors Who are Also Employees			Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) (Note2)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary or the Parent company			
		Base Compensation (A)	Severance Pay (B)	Bonus to Directors (C) (Note 1)	Allowances (D)	Ratio of Total Remuneration (A+B+C+D) to Net Income (%)	Salary, Bonuses, and Allowances (E)	Severance Pay (F)	Profit Sharing- Employee Bonus (G) (Note2)	The company	Companies in the consolidated financial statements	13.36%		13.36%		
Chairman	Kinying Kwan															
Director	Herbert Chang															
Director	Benjamin Jin-Ping Ng (Note3)															
Director	Johnny Shyang-Lin Shen	7,792	0	11,673	2,504	5.07%	35,832	99	0	0	0	0	0	0	0	N/A
Director	Daniel Wang (Note4)															
Independent Director	Mao-Wei Hung															
Independent Director	Brian Chiang															
Independent Director	Binfu Chuang															

1. Please describe the policy, system, standard and structure of remuneration paid for Individual Director and also describe the relevance between the responsibility, risk and engaged time of Individual Director, etc. and the amount of remuneration: The remuneration paid for directors of the Company is set aside no more than 2% of its annual profits as bonus to Directors according to the Memorandum and Articles of Association of the Company. The remuneration paid as allowances to Directors is approved by the Board and paid monthly.

2. Except the above table, the remuneration gained by the Directors of Company for the service provided to all companies is stated in financial report in the most recent year : None.

Note 1 : On March 6, 2020, the Board of the Company approved that compensation distribution to directors is NT\$11,673 thousand.

Note 2 : On March 6, 2020 the Board of the Company approved that compensation distribution to employees is NT\$46,692 thousand. The detail of distribution has not been resolved.

Note 3 : Director, Mr. Benjamin Jin-Ping Ng resigned on June 21, 2019.

Note 4 : Mr. Daniel Wang was elected as Director at the Annual General Meeting on June 21, 2019.

Range of Remuneration	Name of Directors					
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)			
	The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements
Under NT\$ 1,000,000	Benjamin Jin-Ping Ng (Note 1)	Benjamin Jin-Ping Ng (Note 1)	Benjamin Jin-Ping Ng (Note 1)	Benjamin Jin-Ping Ng (Note 1)	Benjamin Jin-Ping Ng (Note 1)	
NT\$1,000,001 ~ NT\$2,000,000	Johnny Shyang-Lin Shen, Daniel Wang	Johnny Shyang-Lin Shen, Daniel Wang	-	-	-	
NT\$2,000,001 ~ NT\$3,500,000	Herbert Chang, Mao-Wei Hung, Brian Chiang, Binfu Chuang	Herbert Chang, Mao-Wei Hung, Brian Chiang, Binfu Chuang	Herbert Chang, Mao-Wei Hung, Brian Chiang, Binfu Chuang	Herbert Chang, Mao-Wei Hung, Brian Chiang, Binfu Chuang	Herbert Chang, Mao-Wei Hung, Brian Chiang, Binfu Chuang	
NT\$3,500,001 ~ NT\$5,000,000	-	-	-	-	-	
NT\$5,000,001 ~ NT\$10,000,000	Kinying Kwan	Kinying Kwan	Kinying Kwan	Kinying Kwan	Kinying Kwan	
NT\$10,000,001 ~ NT\$15,000,000	-	-	-	-	-	
NT\$15,000,001 ~ NT\$30,000,000	-	-	Johnny Shyang-Lin Shen, Daniel Wang	Johnny Shyang-Lin Shen, Daniel Wang	Johnny Shyang-Lin Shen, Daniel Wang	
NT\$30,000,001 ~ NT\$50,000,000	-	-	-	-	-	
NT\$50,000,001 ~ NT\$100,000,000	-	-	-	-	-	
Over NT\$100,000,000	-	-	-	-	-	
Total	8	8	8	8	8	

Note 1 : Director, Mr. Benjamin Jin-Ping Ng resigned on June 21, 2019.

B. Remuneration to Supervisors: It is not applicable as the Company does not have supervisors.

C. Remuneration to General Managers and Vice Presidents

Unit : NT\$ thousand

Title	Name	Salary(A)		Severance Pay and Pensions (B)		Bonuses and Allowance (C)		Compensation to Employees(D) (Note 1)				Ratio of total compensation (A+B+C+D) to net income after tax(%)		Compensation Received from Non- consolidated subsidiary
		The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements	The Company	The Company	Cash	Stock	The Company	Companies in the Consolidated Financial Statements	
CEO	Johnny Shyang-Lin Shen	117,130	117,130	822	822	0	0	0	0	0	0	27.21%	27.21%	N/A
COO	Jacky Ni (Note 2)													
Sales VP of Japan Business Unit	Kozo Fujita (Note 3)													
GM of Japan Business Unit	Junichiro Hosaka													
GM of China Business Unit	Andy Lin													
GM of US Business Unit	Hiroyuki Nagashima (Note 4)													
Sr. VP of Design Engineering	Leo Cheng													
Sales VP	Robert Chang													
CFO	Daniel Wang													
Financial Controller	Nancy Chan													
VP of Strategy Alliance	Peter Teng (Note 5)													

Note 1 : On March 6, 2020 the Board of the Company approved that compensation distribution to employees is NT\$46,692 thousand. The detail of distribution has not been resolved.

Note 2 : Mr. Jacky Ni resigned from COO on March 15, 2019.

Note 3 : Mr. Kozo Fujita is no longer as an insider as of March 15, 2019.

Note 4 : Mr. Hiroyuki Nagashima becomes an insider as of March 15, 2019.
 Note 5 : Mr. Peter Teng becomes an insider as of March 15, 2019.

Remuneration Scale Table

Remuneration Scale to the Company's General Managers and VPs	Name of General Managers and VPs	
	The company	Companies in the Consolidated Financial Statements
Under NT\$ 1,000,000	-	-
NT\$1,000,000 (inclusive) ~ NT\$2,000,000 (exclusive)	Jacky Ni (Note 1)	Jacky Ni (Note 1)
NT\$2,000,000 (inclusive) ~ NT\$3,500,000 (exclusive)	Kozo Fujita (Note 2)	Kozo Fujita (Note 2)
NT\$3,500,000 (inclusive) ~ NT\$5,000,000 (exclusive)	-	-
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)	Junichiro Hosaka /Hiroyuki Nagashima (Note 3)/ Nancy Chan / Peter Teng (Note 4)	Junichiro Hosaka /Hiroyuki Nagashima (Note 3)/ Nancy Chan / Peter Teng (Note 4)
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)	Daniel Wang / Robert Chang /Andy Lin	Daniel Wang / Robert Chang /Andy Lin
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)	Johnny Shyang-Lin Shen / Leo Cheng	Johnny Shyang-Lin Shen / Leo Cheng
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)	-	-
Over NT\$100,000,000	-	-
Total	11	11

Note 1 : Mr. Jacky Ni resigned from COO on March 15, 2019.

Note 2 : Mr. Kozo Fujita is no longer as an insider as of March 15, 2019.

Note 3 : Mr. Hiroyuki Nagashima becomes an insider as of March 15, 2019.

Note 4 : Mr. Peter Teng becomes an insider as of March 15, 2019.

D. Employees' bonus paid to Managerial Officers

December 31, 2019; Unit: NT\$ thousand

	Title	Name	Stock Dividend(Note 1)	Cash Dividend(Note 1)	Total	Percentage of the Total Amount to the Net Income After Tax (%)
Executive Officers	CEO	Johnny Shyang-Lin Shen				
	COO	Jacky Ni (Note 2)				
	Sales VP of Japan Business Unit	Kozo Fujita (Note 3)				
	GM of Japan Business Unit	Junichiro Hosaka				
	GM of China	Andy Lin				
	GM of US Business Unit	Hiroyuki Nagashima (Note 4)	0	0	0	0%
	Sr. VP of Design Engineering	Leo Cheng				
	Sales VP	Robert Chang				
	CFO	Daniel Wang				
	Financial Controller	Nancy Chan				
	VP of Strategy Alliance	Peter Teng (Note 5)				

Note 1 : On March 6, 2020, the Board of the Company approved that compensation distribution to employees is NT\$46,692 thousand. The detail of distribution has not been resolved.

Note 2 : Mr. Jacky Ni resigned from COO on March 15, 2019.

Note 3 : Mr. Kozo Fujita is no longer as an insider as of March 15, 2019.

Note 4 : Mr. Hiroyuki Nagashima becomes an insider as of March 15, 2019.

Note 5 : Mr. Peter Teng becomes an insider as of March 15, 2019.

3.2.4 Comparison of the remunerations to Directors, General Managers, and VPs in proportion to the net income after tax from the Company and companies included in the consolidated financial statements in the most recent 2 years, and specify the policies, standards, combinations, procedures for determining remunerations and correlation with business performance

A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent years to Directors, General Managers, and VPs of the Company to the net income

Title	Ratio of the Total Remuneration Amount to the Net Income After Tax (%)			
	2018		2019	
	The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements
Directors	6.67%	6.67%	5.07%	5.07%
GMs, and VPs	26.90%	26.90%	27.21%	27.21%

B. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance

- (1) Remuneration to Directors are determined by the position at the Company, participation and contribution.
- (2) Remuneration to General Managers and VPs are determined according to the Company's regulations and HR policies, while taking into account each individual's position, performance and contribution, and industry standards.

3.3 Implementation Status of Corporate Governance

3.3.1 Operations of the Board

A total of six (A) meetings of the Board of Directors were held in 2019 and the current year up to the date of publication of the annual report with their attendance shown as follows.

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Chairman	Kinying Kwan	6	0	100%	
Director	Herbert Chang	5	1	83%	
Director	Johnny Shyang-Lin Shen	6	0	100%	
Director	Daniel Wang	4	0	100%	Elected on June 21, 2019
Director	Benjamin Jin-Ping Ng	1	1	50%	Resigned on June 21, 2019
Independent Director	Mao-Wei Hung	5	1	83%	
Independent Director	Brian Chiang	6	0	100%	
Independent Director	Binfu Chuang	6	0	100%	

Other mentionable items :

1. The operation of the Board with any of the following conditions, the date of Board meeting, term, agenda items, all opinions of Independent Directors, and how the company handles opinions of Independent Directors should be stated clearly :

(1) For matters specified in Article 14-3 of the Securities Exchange Act.

Date of Board meeting	Term	Agenda items	Opinions of from Independent Directors	The Company's Conduct for the opinions of Independent Directors
03/15/2019	The 1 st in 2019	<ul style="list-style-type: none"> The evaluation and appointment of Certified Public Accountant was approved. The amendments to the "Memorandum and Articles of Association of the Company" was approved. The bonus scheme for the employees and directors for the year of 2018 was approved. 	None	None

		<ul style="list-style-type: none"> • The amendments to “The Guideline for Acquisition and Disposal of Assets” was approved. • The amendments to “Guideline for Engaging in Derivatives Transactions” was approved. • The amendments to “The Guideline for Loaning Funds to Others” was approved. • The amendments to “The Guideline for Endorsement and Guaranty” was approved. • The prohibition on newly Directors elected at the Annual General Meeting to be released from the participation in competitive business was approved. • The monthly remuneration scheme for the Directors for the year of 2019 was approved. 		
05/03/2019	The 2 nd in 2019	<ul style="list-style-type: none"> • The amendments to “Memorandum and Articles of Association of the Company” was approved. • The list of candidates of Director and the review of qualification of Director candidates were approved. • The grant list of 2018 Employee Stock Option Plan was approved. • The 2019 Employee Stock Option Plan was approved. 	None	None
06/21/2019	The 3 rd in 2019	<ul style="list-style-type: none"> • The election of the Chairman of Board of the Company was approved. 	None	None
08/02/2019	The 4 th in 2019	<ul style="list-style-type: none"> • The appointment of members of Remuneration Committee was approved. • The grant list of 2019 Employee Stock Option Plan was approved. 	None	None
11/01/2019	The 5 th in 2019	<ul style="list-style-type: none"> • The grant list of 2019 Employee Stock Option was approved. 	None	None
03/06/2020	The 1 st in 2020	<ul style="list-style-type: none"> • The evaluation of Certified Public Accountant was approved. 	None	None

			<ul style="list-style-type: none"> • The bonus scheme for the employees and Directors for the year of 2019 was approved. • The amendments to the “Memorandum and Articles of Association of the Company” was approved. • The amendments to the “Management of the procedures for preparation of financial statements” was approved. • The remuneration packages for the senior managers (executives) for the year of 2020 was approved. • The grant list of 2019 Employee Stock Option Plan was approved. • 2020 Employee Stock Option Plan was approved. 		
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(2) Except the former item, other Board resolutions where Independent Directors have expressed opposition or qualified opinions that have been noted in the record or declared in writing.

2. If there are Directors’ avoidance of motions in conflict of interest, the Directors’ names, contents of motion, causes for avoidance and voting should be specified : Director, Johnny Shyang-Lin Shen did not participate in the meeting of the Board of Directors held on March 15, 2019 and March 6, 2020 for discussion and voting on bonuses paid to Executives due to avoidance of conflict of interest. Moreover, Director, Daniel Wang did not participate in the meeting of the Board of Directors held on March 6, 2020 for discussion and voting on bonuses paid to Executives due to avoidance of conflict of interest.

3. The information of the Evaluation cycles, evaluation periods, scope and method of evaluation for the Self-evaluation(or Peer evaluation) of the Board of Directors:

Evaluation cycles	evaluation periods	Scope of Evaluation	Method of Evaluation	Content of Evaluation
Once a year	1/1/2020~12/31/2020	The Board and each board member	The evaluation of the board as a whole and Self-evaluation of Board members	The evaluation will be completed by the end of first quarter of 2021. The criteria covers participation in the operation of the company, awareness of the duties of a director, the director’s professionalism and continuing education and internal control, etc.

4. Measures taken to strengthen the functions of the Board (such as the establishment of audit committee, enhancement on information transparency) during the current year and past year and evaluation of measures :

The Audit Committee and Remuneration Committee were established on Oct. 29, 2010 and May 18, 2011 respectively and have assisted the Board in fulfilling its responsibilities in accordance with the Audit Committee Charter and Remuneration Committee Charter.

In order to improve the operation efficiency of the board of directors, we have established “Regulations Governing the Board Performance Evaluation” in March 6, 2020 to enhance the company’s board functions.

5. The attendance of Independent Directors

◎:Attend in Person; ☆:Proxy; * :Absent

Term Name	The 1 st in 2019	The 2 nd in 2019	The 3 rd in 2019	The 4 th in 2019	The 5 th in 2019	The 1 st in 2020
Mao-Wei Hung	◎	◎	☆	◎	◎	◎
Brian Chiang	◎	◎	◎	◎	◎	◎
Binfu Chuang	◎	◎	◎	◎	◎	◎

3.3.2 Operation of Audit Committee

A total of six (A) Audit Committee meetings were held in 2019 and the current year up to the date of publication of the annual report. Records of attendance by independent directors are shown as follows :

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【 B / A 】	Remarks
Independent Director	Mao-Wei Hung	5	1	83%	
Independent Director	Brian Chiang	6	0	100%	
Independent Director	Binfu Chuang	6	0	100%	

Other mentionable items :

1. The main function of the Committee is to supervise the following matters :

- (1)The reliability and integrity of the financial report of the Company.
- (2)Appointment(and dismissal), independence and performance of certified public accountants of the Company.
- (3)The effective implementation of the internal control system of the Company.
- (4)Compliance with relevant laws and regulations of the Company.
- (5)Management of the existing or potential risks of the Company.

2.The operation of the Audit Committee with any of the following conditions, the dates of meetings, sessions, contents of motion, resolutions of the Audit Committee and the company’s response to the Audit Committee’s opinion should be specified :

- (1) For matters specified in Article 14-5 of the Securities and Exchange Act.

Date of Board meeting	Term	Contents of Motion	Resolutions of Audit Committee	The conduct of the Company for the comments from Audit Committee
03/15/2019	The 1 st in 2019	<ul style="list-style-type: none"> • The evaluation and appointment of Certified Public Accountant was approved. • The amendments to the “Memorandum and Articles of Association of the Company” was approved. • The consolidated financial statement for the year ended December 31, 2018 of the Company was approved. • The proposal of 2018 Dividend Distribution was approved. • The Business Report of 2018 was approved. • The Internal Control System Statement for the year ended December 31, 2018 of the Company was approved. • The amendments to the “Rules Governing Procedures for Meetings of Board of Director” was approved. • The amendments to the “Guideline for Acquisition and Disposal of Assets” was approved. • The amendments to the “Guideline for Engaging in Derivatives Transactions” was approved. • The amendments to the “Guideline for Loaning Funds to Others” was approved. • The amendments to the “Guideline for Endorsement 	They were approved by Audit Committee.	None.

		and Guaranty” was approved.		
05/03/2019	The 2 nd in 2019	<ul style="list-style-type: none"> The consolidated financial statements for the period ended March 31, 2019 of the Company was approved. The amendments to “Memorandum and Articles of Association of the Company” was approved. The amendments to the “Corporate Governance Best Practice Principles” was approved. 	It was approved by Audit Committee.	None
08/02/2019	The 4 th in 2019	<ul style="list-style-type: none"> The semi-annual consolidated financial statement for the period ended June 30, 2019 of the Company was approved. 	They were approved by Audit Committee.	None.
11/01/2019	The 5 th in 2019	<ul style="list-style-type: none"> The consolidated financial statements for the period ended September 30, 2019 of the Company was approved. The Audit Plan for the year of 2020 of the Company was approved. 	They were approved by Audit Committee.	None
03/06/2020	The 1 st in 2020	<ul style="list-style-type: none"> The evaluation of Certified Public Accountant was approved. The consolidated financial statement for the year ended December 31, 2019 of the Company was approved The proposal of 2019 Dividend Distribution was approved. The business report of 2019 was approved. The Internal Control System Statement for the year ended December 31, 2019 of the Company was approved. 	They were approved by Audit Committee.	None.

		<ul style="list-style-type: none"> • The amendments to the “Memorandum and Articles of Association of the Company” was approved. • The amendments to the “Rules Governing Procedures for Meetings of Board of Director” was approved. • The amendments to the “Rules of Responsibilities of Independent Directors” was approved. • The amendments to the “Management of the procedures for preparation of financial statements” was approved. 		
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(2) Except the former item, other resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all directors : None.

3. If there are Independent Directors’ avoidance of motions in conflict of interest, the Directors’ names, contents of motion, causes for avoidance and voting should be specified : None.

4. Communication between Independent Directors and Internal Auditors and Accounts (including major items, methods, and results that were communicated concerning the company’s financial and business situations) :

The Internal Auditor submits the Internal Audit Report to each Independent Director monthly for review and reports in Board meeting quarterly for the audit operations and the implementation status. If there are any special circumstances, the Internal Auditors will immediately notify the audit committee.

Date	Communication material	Result of Communication
May 3, 2019	2019 Q1 Audi report	The communication between Independent Directors and Internal Auditor is well.
August 2, 2019	2019 Q2 Audit report	The communication between Independent Director and Internal Auditor is well.
November 1, 2019	2019 Q3 Audit report	The communication between Independent Director and Internal Auditor is well.
March 6, 2020	2019 Q4 Audit report	The communication between Independent Director and Internal Auditor is well.

The Company’s Certified Public Accountant reported the audit results on 2019 financial statements and other communication matters required by relevant laws and regulations in the meeting of the audit committee on March 6, 2020. The communication between the Audit Committee and the CPAs has been good.

Date	Communication material	Result of Communication
March 15, 2019	1. Report for 2018 financial statements audit result and discuss about update accounting principal and law effect. 2. Report for Internal audit result.	The communication between Independent Directors and CPAs is well.
March 6, 2020	1. Report for 2019 financial statements audit result and discuss about update accounting principal and law effect. 2. Report for Internal audit result.	The communication between Independent Directors and CPAs is well.

3.3.3 Corporate governance implementation status and deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reason for any such deviation

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
I. Does the company establish and disclose the Corporate Governance Best Practice Principles based on “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”?	V		No material difference.
II. Shareholding Structure & Shareholders’ rights			
1. Does the company have an Internal Operation procedures for appropriate handling shareholders’ suggestions, inquiries, disputes and litigation matters, and implement them in accordance with the procedures?	V		No material difference.
2. Does the company possess a list of major shareholders and beneficial owner of these major shareholders?	V		No material difference.
3. Has the company built and executed a risk management system and firewall between the Company and its affiliates?	V		No material difference.

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons																								
	Yes	No																									
4. Has the company establish internal rules prohibiting insiders trading on undisclosed information?	V		<p>risk control and firewalls mechanism through the internal audit system.</p> <p>4. The Company has formulated the “Procedures for Internal Material Information Handling and the Prevention of Insider Trading” and regularly provided training or relevant information on this issue to the insiders.</p>																								
<p>III. Composition and Responsibilities of the Board of Directors</p> <p>1. Has the company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?</p>	V		<p>1. The Board consists of seven directors, in which three of them are Independent Directors as adopted in accordance with the “Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies”. The Company has stated the diversification policy for composition of the Board members in Corporate Governance Best Practice Principles and adopted the policy. To achieve the better corporate governance, each Board member has his own specialized field and knowledge of industry. The industry experience and professional distribution of the directors are shown as follows:</p> <table border="1" data-bbox="1050 629 1434 1218"> <thead> <tr> <th rowspan="2">Name</th> <th colspan="4">Item of Diversity</th> </tr> <tr> <th>Nationality</th> <th>Management</th> <th>Leadership</th> <th>Industry</th> </tr> </thead> <tbody> <tr> <td>Kinying Kwan</td> <td>U.S.A 、 R.O.C</td> <td>V</td> <td>V</td> <td>V</td> </tr> <tr> <td>Herbert Chang</td> <td>R.O.C</td> <td>V</td> <td>V</td> <td>V</td> </tr> <tr> <td>Johnny Shyang-Lin Shen</td> <td>U.S.A 、 R.O.C</td> <td>V</td> <td>V</td> <td>V</td> </tr> </tbody> </table>	Name	Item of Diversity				Nationality	Management	Leadership	Industry	Kinying Kwan	U.S.A 、 R.O.C	V	V	V	Herbert Chang	R.O.C	V	V	V	Johnny Shyang-Lin Shen	U.S.A 、 R.O.C	V	V	V
Name	Item of Diversity																										
	Nationality	Management	Leadership	Industry																							
Kinying Kwan	U.S.A 、 R.O.C	V	V	V																							
Herbert Chang	R.O.C	V	V	V																							
Johnny Shyang-Lin Shen	U.S.A 、 R.O.C	V	V	V																							

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons					
	Yes	No						
<p>2. Other than the Remuneration Committee and the Audit Committee which are required by law, does the Company plan to set up other Board committees?</p> <p>3. Does the company establish methodology for evaluating the performance of its Board Directors, on an annual basis and submit the results of performance assessments to the Board of Directors and use them as reference in determining compensation for individual Directors, their nomination and additional office term.?</p> <p>4. Does the company regularly evaluate its independence of CPAs?</p>	V	<p>V</p> <p>V</p> <p>V</p> <p>V</p>	<p>The Company has not set up other various functional committees.</p> <p>No material difference.</p> <p>No material difference.</p>					
				Daniel Wang	R.O.C	V	V	V
				Mao-Wei Hung	R.O.C	V	V	V
				Brian Chiang	R.O.C	V	V	V
				Binfu Chuang	U.S.A · R.O.C	V	V	V

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
IV. Does the company an adequate number of corporate governance personnel with appropriate qualifications and appoint a chief corporate governance officer to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors and supervisors, assisting directors and supervisors with legal compliance, handle matters relating to board meetings and shareholders meetings according to laws)?	V		No material difference.
V. Has the company established a means of communicating with its stakeholders (including but not limited to shareholders, employees, customers and suppliers) or created a Stakeholders Section on its company website? Does the company respond to stakeholders’ questions on corporate responsibilities?	V		No material difference.
VI. Has the company appointed a professional registrar for its Shareholders’ meetings?	V		No material difference.
VII. Information disclosure 1. Has the company set up a website to disclose information regarding its finances, operations, and corporate governance status?	V		No material difference.
2. Does the company use other information disclosure channels (e.g. maintaining an English-language website, assigning staff to handle information	V		No material difference.

Item	Implementation Status		Deviations from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
<p>collection and disclosure, appointing spokespersons, webcasting investors conference etc.)?</p> <p>3. Does the company publish and report its annual financial report within two months after the end of a fiscal year, and publish and report its financial reports for the first, second and third quarters as well as its operating status for each month before the specified deadline?</p>	V	<p>Company also established a spokesperson system as required by the regulations.</p> <p>3. The Company publishes and reports annual financial report within specified deadline and has no plan to publish and report financial report and operating status ahead of time.</p>	No material difference.
<p>VIII. Does the company have other information that would help better understand the Company’s implementation of corporate governance? (including but not limited to employee rights and benefits, employees caring, investor relations, supplier relationship, the rights of related parties, continuing education for directors and supervisors, implementation of risk management policies and risk assessment standards, implementation of customer policies, liability insurance purchased by the Company directors and supervisors)?</p>	V	<p>1. The Company has formulated and implemented relevant regulations in accordance with government acts regarding labor, welfare, safety, and health to protect employee rights and benefits and care employees’ life.</p> <p>2. In accordance with applicable public company rules, the Company discloses the Company’s business operations and financial status for investors, and maintains investor relations by properly dealing with inquiries from investors.</p> <p>3. The Company arranges the training institutions specified by the competent authority to provide further training for Directors every year.</p> <p>4. The Company annually purchases D&O Insurance for Directors and Independent Directors to reduce risks.</p>	No material difference.
<p>IX. In terms of the corporate governance evaluation results which has been disclosed by the Corporate Governance Center of Taiwan Stock Exchange in the most recent year, describe the improved items and present the actions and amendment for unimproved items.</p> <p>1. Improved items : The Company has established “Regulations Governing the Board Performance Evaluation” on March 6, 2020 to enhance the company’s board functions.</p> <p>2. Remedy for unimproved items :</p> <p>i. The Company has disclosed the operation of Remuneration Committee with the date of meeting, term, agenda items, all opinions of Independent Directors, and how the company handles opinions of Independent Directors in annual report.</p> <p>ii. The Company will disclose the “Material information of TWSE listed companies” in English version from Year 2020.</p>			

3.3.4 Composition, responsibilities and operations of the Remuneration Committee shall be disclosed if the company has a Remuneration Committee in place

The purpose of the Company's compensation committee is to assist the Board of Directors in implementation and evaluation of the Company's overall compensation and benefits policies and remuneration to managerial officers.

A. Information on members of Remuneration Committee

Identity	Name	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five-year Work Experience			Independence Criteria (Note 1)										Number of Other Taiwanese Public Companies Concurrently Serving as a Member of the Remuneration Committee	Remarks		
			An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Has Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10				
Convener	Mao-Wei Hung	✓				✓	✓	✓	✓	✓								0	
Committee Member	Brian Chiang				✓	✓	✓	✓	✓									0	(Note 2)
Committee Member	Binfu Chuang				✓	✓	✓	✓	✓									0	

Note 1 : Please tick the corresponding boxes if members have been any of the following during the two years prior to being elected or during the term of office.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates. However, in cases where the person is an independent director of the company, its parent company, or any subsidiary, or the subsidiary which belongs to the same parent company as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it does not apply.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings or the representative who is appointed based on 1 or 2 in Article 27 of the Company Act (However, in cases where the person is an independent director of the company, its parent company, or any subsidiary, or the subsidiary which belongs to the same parent company as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it does not apply).
- (6) Not a director, supervisor or employee of other company controlled by the same person when more than half of the company's director seat or voting shares (However, in cases where the person is an independent director of the company, its parent company, or any subsidiary, or the subsidiary which belongs to the same parent company as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it does not apply).
- (7) Not a director, supervisor or employee of other companies or institutions who is the same person or spouse with the company's chairman, General Manager or equivalent (However, in cases where the person is an independent director of the company, its parent company, or any subsidiary, or the subsidiary which belongs to the same parent company as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary, it does not apply).

- (8) Not a director, supervisor, managerial officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company. (However, if a specific company or institution holds more than 20% but not more than 50% if the total issued shares of the company, and the independent directors set by the company and its parent company, subsidiaries, or subsidiaries of the same parent company in accordance with this law or local laws and regulations.)
- (9) Not a professional individual who, or an owner, partner, director, supervisor, or managerial officer and their spouse of a sole proprietorship, partnership, company, or institution that, provides audit or business, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company that have received cumulative remuneration which is not exceeding NT\$500,000 in past two years..Except for members of the remuneration committee, the public acquisition review committee or the special committee on mergers and acquisitions that perform their functions in accordance with the relevant laws of the Securities and Exchange Act or Business Mergers And Acquisitions Act.
- (10)Not been a person of any conditions defined in Article 30 of the Company Law.

Note 2 : The Committee shall faithfully perform the following duties and present its recommendations to the board of directors for discussion.

- (1) Periodically reviewing this Charter and making recommendations for amendments.
- (2) Establishing and periodically reviewing the annual and long-term performance goals for the directors, supervisors, and managerial officers of this Corporation and the policies, systems, standards, and structure for their compensation.
- (3) Periodically assessing the degree to which performance goals for the directors, supervisors, and managerial officers of this Corporation have been achieved, and setting the types and amounts of their individual compensation.

B. Operations of the Remuneration Committee

- (1) The Company's remuneration committee consists of three members.
- (2) The members' term of office for this session : From June 21, 2019 to June 20, 2022. Mr. Mao-Wei Hung, the remuneration committee chair convened the regular meeting four (4) times in Year 2019. The records of attendance of members are shown as follows :

Title	Name	Attendance in Person(B)	By Proxy	Actual Attendance Rate (%) (B/A)(Note)	Remarks
Convener	Mao-Wei Hung	4	0	100%	
Committee Member	Brian Chiang	4	0	100%	
Committee Member	Binfu Chuang	4	0	100%	

Other mentionable items :

1. The resolutions of Remuneration Committee :

The date of Remuneration Committee	The Committee	Motions	Resolutions	The conduct of the Company for the comments from Audit Committee
03/15/2019	The 1 st in 2019	<ul style="list-style-type: none"> • The bonus scheme for the employees and directors for the year of 2018. • The replacement and appointment for senior managers (executives) of the Company . • The remuneration packages for the senior managers 	They were approved by Remuneration Committee	They were all submitted to Board and approved by Directors of Board

		(executives) for the year of 2019. • The monthly remuneration scheme for the Directors for the year of 2019.		
05/03/2019	The 2 nd in 2019	The 2019 Employee Stock Option Plan.	It was approved by Remuneration Committee	It was submitted to Board and approved by Directors of Board
08/02/2019	The 3 rd in 2019	The election for the chair of remuneration committee.	It was approved by Remuneration Committee	The resolution was approved
11/01/2019	The 4 th in 2019	The grant list of 2019 Employee Stock Option was approved.	It was approved by Remuneration Committee	It was submitted to Board and approved by Directors of Board

2. If the Board of Directors declines to adopt, or modifies a recommendation of the remuneration committee, the date of board meeting, term, agenda items, results of resolutions of the remuneration committee, and how the company handles opinions of the remuneration committee should be stated clearly (If the remuneration approved by the Board of Directors is better than the recommendation of the remuneration committee, the difference and the reason should be stated clearly.) : No such situation occurred.
3. If resolutions of the remuneration committee are objected by members or become subject to a qualified opinion, which have been recorded or declared in writing, then the date of the meeting, the session, the nature of the motion, all members' opinions and the response to members' opinion should be specified : No such situation occurred.

3.3.5 Corporate social responsibility

Systems and measures that the company has adopted with respect to environmental protection, community participation, contributions to society, services to society, social and public interests, consumer rights and interests, human rights, safety and health, and other corporate social responsibilities and activities, and the state of implementation.

Item	Status of Implementation		Deviations from the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Yes	No	
I. Does the company, in its corporate management guidelines and business operations, give due consideration to the rights and interests of stakeholders and, while pursuing sustainable operations and profits, also give due consideration to the environment, society and corporate governance?	V		In fulfilling corporate social responsibility initiatives, the Company shall, in its corporate management and operations, give due consideration to the social mores and the rights and interest of the interested parties and, while pursuing sustainable operations and profits, also give due consideration to the environment, society and corporate governance.
II. Does the company establish an exclusively (or concurrently) dedicated unit to be in charge of proposing and enforcing the corporate social responsibility, have top management be authorized to handle it by the Board of Directors, and to report to the Board of Directors on a periodic basis?	V		The Company has an concurrently dedicated unit to be in charge of the promotion of corporate social responsibility, report on the implementation to the CEO regularly, collect and report the summary of implementation to the Board of Directors yearly.
III. Environmental issues 1. Does the company establish a proper environment management system based on the characteristics of its industry? 2. Does the company endeavor to utilize all resources more efficiently and use renewable materials that have a low impact on the environment?	V V		1. Since the Company has no industrial pollution, we will focus on continuous promotion of environmental protection and energy conservation, and reduce sanitary waste to achieve the goal for energy conservation and carbon reduction. 2. The Company mainly provides customers with NRE. The solutions to the back-end mass production engineering are all through outsourcing, including wafer fabrication, packaging, and testing so that the Company has neither other production equipment, nor other industrial pollution.

Item	Status of Implementation		Deviations from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
3. Does the company evaluate the climate change on its the protencial risk and chance for now and future and take action which is related to the issues of climate?	V		No material difference.
4. Does the company count the emissions of greenhouse-gas, water consumption and total weight of wastewater in the past two years and set the policies for energy conservation and carbon reduction, greenhouse-gas reduction and water or other waste management?	V		No material difference.
IV. Social issues			
1. Does the company adopt relevant management policies and processes in compliance with relevant laws and regulations, and the International Bill of Human Rights?	V		No material difference.
2. Does the company set and implement a reasonable employee benefit plan (including remuneration, leaves and other benefits) and reflect the corporate business performance or achievements in the employee remuneration?	V		No material difference.
3. Does the company provide safe and healthful work environments for its employees, organize training on safety, and health for its employees on a regular basis?	V		No material difference.
4. Does the company establish effective training programs to foster career skills for its employees?	V		No material difference.
5. Does the company follow relevant laws, regulations, and international guidelines for the customer’s health	V		No material difference.

Item	Status of Implementation		Deviations from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	
<p>and safety, customer’s privacy, marketing and labeling of its products and services and also establish relevant policies on consumer rights and interests and procedure for accepting consumer complaints?</p> <p>6. Does the company establish the supplier Management Policy for asking the suppliers to follow the relevant regulations and practice in the issues of environmental protection, occupational safety and health or Labor rights?</p>	V		<p>No material difference.</p>
<p>V. Does the company prepare the corporate social responsibility report and disclose non-financial information by referring to the internationally-used governing preparation or guide ? Has the report disclosed been assured, verified or certified by a third party.</p>		V	<p>The Company does not prepare the corporate social responsibility report.</p>
<p>VI. If the company promulgates its own corporate social responsibility principles in accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” , please state clearly the discrepancy in the operation thereof and the principles :</p> <p>The Company has established the “Corporate Social Responsibility Best Practice Principles” and followed such principles to handle relevant matters on the Company’s corporate social responsibility.</p>			<p>The Company handles social responsibility related matters based on the “Corporate Social Responsibility Best Practice Principles”</p>
<p>VII. Other significant information which would help better understand the implementation of corporate social responsibility (such as environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights, safety and health, other corporate social responsibilities and activities, and the state of implementation.</p> <p>(1) The Company received Green Partner certification from a world-class company in 2008 as its partner in green supply chain. The Company will continue to make efforts to provide excellent quality of environmentally friendly products and fulfill environmental responsibility as a citizen of the world.</p> <p>(2) The Company launches fundraising activities and donations of materials from time to time for socially disadvantaged minorities and objects affected.</p>			

3.3.6 Implementation of Ethical Corporate Management : The Company has formulated the “Operational Procedures and Guidelines for Ethical Management” to foster a corporate culture of ethical management and sound development and offer to establish good commercial practices, and follow them to handle relevant matters

Item	Status of Implementation		Discrepancy from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the Reasons
	Yes	No	
<p>1. Establishment of ethical corporate management policies and programs</p> <p>1. Does the company set the ethical management policy which has approved by the Board and clearly specify the ethical management policies, action in the rules and external documents of the Company and the commitment by the Board of Directors and Executives for implementing the policies actively?</p>	V		No material difference.
<p>2. Does the company establish a risk assessment mechanism against unethical conduct, analyze and assess on a regular basis business activities within the business scope which are at a higher risk of being involved in unethical conduct, and establish prevention programs and also adopt preventive measures which are at least included any matter set forth in Paragraph 2, Article 7 of the “Ethical Corporate Management Best Practice Operational Procedures and Action Guidebook”?</p>		V	The Company has not set a risk assessment mechanism against unethical conduct.
<p>3. Does the company set implementation procedures, guidelines, consequence of violation and complaint procedures in relevant policies which are duly enforced to prevent unethical conduct?</p>	V		No material difference.

Item	Status of Implementation		Discrepancy from the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and the Reasons
	Yes	No	
			highest legal and ethical standards, the Company periodically organizes training courses to enhance employees' concepts of ethics and self-discipline, and carry them out. If any personnel of this Corporation seriously violates ethical conduct, the Company shall dismiss the personnel from his or her position or terminate his or her employment in accordance with applicable laws and regulations or the personnel policy and procedures of Corporation.
<p>II. Implementation of ethical management</p> <p>1. Does the company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?</p> <p>2. Does the company establish a dedicated unit that is under the Board of Directors and responsible for promoting the ethical management, and report its ethical management policy, the prevention programs for misconduct and the status of supervision to the Board of Directors on a regular basis(at least once a year)?</p> <p>3. Does the company adopt policies for preventing conflicts of interest, offer appropriate means, and carry them out?</p>	V	V	<p>No material difference.</p> <p>The Company reports to the Board aperiodically.</p> <p>No material difference.</p>

Item	Status of Implementation		Discrepancy from the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and the Reasons
	Yes	No	
<p>4. Does the company establish effective accounting systems and internal control systems to facilitate ethical corporate management, and have the internal audit unit to set the related audit plan based on the assessment result of misconduct's risk and then examine the situation of compliance for preventing the case of unethical conduct or have a certified public accountant to carry out the audit?</p>	V		<p>Director shall state the important aspects of the stake in the meeting and, where there is a likelihood that the interests of this Corporation would be prejudiced, may not participate in the discussion or vote on that proposal. If a personnel of the Company discovers that a potential conflict of interest exists involving himself/herself and the company that he/she represents when conducting the Company business, the personnel shall report the relevant matters to both her or his immediate supervisor and the Audit Dept., and the immediate supervisor shall provide the personnel with proper instructions.</p> <p>4. The Company's accounting system is established referring to applicable laws and regulations the Company Act, Securities Exchange Act, Regulations Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), as recognized by the Financial Supervisory Commission (FSC) and the Company's actual business situations. The Company's internal control has established and executed according to the Regulations Governing Establishment of Internal Control Systems by Public Companies. The Internal Auditor formulates annual audit plans and subsequently reports its audit findings and remedial issues to the Board and Management team on a regular basis. In addition, all departments and subsidiaries are also required to</p>
			No material difference.

Item	Status of Implementation		Discrepancy from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the Reasons
	Yes	No	
5. Does the company periodically organize training internally and externally on the ethical management?	V		No material difference.
III. State of implementation of the company’s whistle - blowing system? 1. Does the company adopt a concrete whistle-blowing system and incentive measures, establish convenient whistle-blowing channels, and appoint appropriate dedicated personnel to handle whistle-blowing system?	V		No material difference.
2. Does the company adopt standard operating procedures for the investigation of reported misconduct, the follow-up after the investigation and relevant confidentiality mechanism?	V		No material difference.
3. Does the company adopt measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing?	V		No material difference.
IV. Enhancing Disclosure of Information 1. Does the company disclose its ethical corporate management best practice principles and the effectiveness of promotion on the company website and the Market Observation Post System?	V		No material difference.
V. If the company has established its own ethical corporate management policies in accordance with the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”, please state clearly the discrepancy in the operation thereof and the principles : Details are shown as above.			

Item	Status of Implementation		Discrepancy from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the Reasons
	Yes	No	
VI. Other significant information which would help better understand the implementation of ethical corporate management (such as the companies’ resolve and policies to advocate the ethical corporate management to business transaction suppliers, invitation to them to participate the training, review and improvement for adoption of the company’s own ethical corporate management best practice principles) : The Company always keeps a close eye on the development of relevant local and international regulations concerning ethical corporate management in order to ensure the Company’s “Ethical Corporate Management Best Practice Operational Procedures and Action Guidebook” is being kept progressed and up-to-date, aiming to enhance and achieve the Company’s better implement of ethical management.			

3.3.7 If the company has adopted corporate governance best-practice principles or related bylaws, disclose the methods of inquiry for such principles or bylaws

Principles or bylaws can be referred through the Market Observatory Post System.

3.3.8 Other significant information that will provide a better understanding of the company’s implementation of corporate governance, if any, such information may also be disclosed

None.

3.3.9 The section on the implementation of the company’s internal control systems shall disclose as follows

A. A Statement on Internal Control : Details are shown on pages 54 and 55.

B. Where a CPA has been engaged to carry out a special audit of the internal control systems, disclose the CPA audit report : None.

3.3.10 The penalties delivered to the company and the staffs of the company, or the penalties delivered by the company to the staffs for violations of internal control system, the major nonconformity, and the corrective action in the most recent years and up to the date of the annual report

None.

3.3.11 Major resolutions of Board Meetings and Shareholders’ Meeting during the most recent year and the current year up to the date of publication of the annual report

A. Board Meeting :

Date	Term	Major Resolutions
03/15/2019	The 1 st in 2019	<ol style="list-style-type: none"> 1. The evaluation and appointment of Certified Public Accountant was approved. 2. The amendments to the “Memorandum and Articles of Association of the Company” was approved. 3. The bonus scheme for the employees and directors for the year of 2018 was approved. 4. The consolidated financial statement for the year ended December 31, 2018 of the Company was approved. 5. The proposal of 2018 Dividend Distribution was approved. 6. The business report of 2018 was approved. 7. The Internal Control System Statement for the year ended December 31, 2018 of the Company was approved. 8. The amendments to the “Rules Governing Procedures for Meetings of Board of Director” was approved. 9. The amendments to the “Guideline for Acquisition and Disposal of Assets” was approved. 10. The amendments to the “Guideline for Engaging in Derivatives Transactions” was approved. 11. The amendments to the “ Guideline for Loaning Funds to Others” was approved. 12. The amendments to the “ Guideline for Endorsement and Guaranty” was approved. 13. The replacement and appointment for senior managers (executives) of the Company was approved.

		<ol style="list-style-type: none"> 14. The election of seven newly Directors (including three Independent Directors) at the upcoming Annual General Meeting scheduled on June 21, 2019 (“Annual General Meeting”) was approved. 15. The prohibition on newly Directors elected at the Annual General Meeting to be released from the participation in competitive business was approved. 16. The date and meeting agenda of 2019 Annual General Meeting of the Company were approved. 17. The period and place for shareholders who holding 1% or more of the total number of outstanding shares of the company to submit proposals to be discussed at the Annual General Meeting of the Company and submit the nomination of director candidates was approved. 18. The remuneration packages for the senior managers (executives) for the year of 2019 were approved. 19. The monthly remuneration scheme for the Directors for the year of 2019 was approved.
05/03/2019	The 2 nd in 2019	<ol style="list-style-type: none"> 1. The consolidated financial statements for the period ended March 31, 2019 of the Company was approved. 2. The amendments to “Memorandum and Articles of Association of the Company” was approved. 3. The amendments to the “Corporate Governance Best Practice Principles” was approved. 4. The list of candidates of Director and the review of qualification of Director candidates were approved. 5. The grant list of 2018 Employee Stock Option Plan was approved. 6. The 2019 Employee Stock Option Plan was approved.
06/21/2019	The 3 rd in 2019	<ol style="list-style-type: none"> 1. The election of the Chairman of Board of the Company was approved.
08/02/2019	The 4 th in 2019	<ol style="list-style-type: none"> 1. The consolidated financial statement for the year ended June 30, 2019 of the Company was approved. 2. The record date of distribution of cash dividend was approved. 3. The appointment of members of Remuneration Committee was approved.
11/01/2019	The 5 th in 2019	<ol style="list-style-type: none"> 1. The grant list of 2019 Employee Stock Option Plan was approved. 1. The consolidated financial statements for the period ended September 30, 2019 of the Company was approved. 2. The Audit Plan for the year of 2020 of the Company was approved. 3. The grant list of 2019 Employee Stock Option was approved.
03/06/2020	The 1 st in 2020	<ol style="list-style-type: none"> 1. The evaluation of Certified Public Accountant was approved. 2. The consolidated financial statement for the year ended December 31, 2019 of the Company was approved 3. The proposal of 2019 Dividend Distribution was approved. 4. The bonus scheme for the employees and Directors for the year of 2019 was approved. 5. The business report of 2019 was approved. 6. The Internal Control System Statement for the year ended December 31, 2019 of the Company was approved. 7. The amendments to the “Memorandum and Articles of Association of the Company” was approved. 8. The amendments to the “Corporate Social Responsibility Best Principles” was approved. 9. The amendments to the “Ethical Corporate Management Best Practice Operational Procedures and Action Guidebook” was approved. 10. The amendments to “Rules Governing the Procedures for Meetings of Shareholders” was approved. 11. The “Regulations Governing the Board Performance Evaluation” was approved.

		<p>12. The amendments to the “Rules Governing Procedures for Meetings of Board of Director” was approved.</p> <p>13. The amendments to “Corporate Governance Best-Practice Principles”</p> <p>14. The amendments to the “Audit Committee Charter” was approved.</p> <p>15. The amendments to the “Remuneration Committee Charter” was approved.</p> <p>16. The amendments to the “Regulations Governing Appointment of Independent Directors and Compliance Matters” was approved.</p> <p>17. The amendments to the “Rules of Responsibilities of Independent Directors” was approved.</p> <p>18. The amendments to the “Management of the procedures for preparation of financial statements” was approved.</p> <p>19. The remuneration packages for the senior managers (executives) for the year of 2020 was approved.</p> <p>20. The monthly remuneration scheme for the Directors for the year of 2020 was approved.</p> <p>21. The grant list of 2019 Employee Stock Option Plan was approved.</p> <p>22. 2020 Employee Stock Option Plan was approved.</p> <p>23. The date and meeting agenda of 2020 Annual General Meeting of the Company were approved.</p> <p>24. The period and place for shareholders who holding 1% or more of the total number of outstanding shares of the company to submit proposals to be discussed at the Annual General Meeting of the Company and submit the nomination of director candidates was approved.</p>
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B. Shareholders’ Meeting :

Date	Major Resolutions	Implementation
06/21/2019	<p>1. 2018 Business Report and the Consolidated Financial Statements for the year ended December 31, 2018 of the Company.</p> <p>2. 2018 Dividend Distribution Proposal.</p> <p>3. Re-election of 7 Directors (including 3 Independent Directors).</p> <p>4. The amendments to the Memorandum and Articles of Association of the Company.</p> <p>5. The amendments to the “Guideline for Acquisition and Disposal of Assets”.</p> <p>6. The amendments to the “Guideline for Engaging in Derivatives Transactions”.</p> <p>7. The amendments to the “Guideline for Loaning Funds to Others”.</p>	<p>1. Approved and adopted.</p> <p>2. Approved. (1)The Company distributed 2018 bonus, US\$2,915,450 to shareholders of the Company. (2)The Record date was set on August 30, 2019 and the dividend distribution was completed on September 26, 2019.</p> <p>3. The list of newly Board Directors is shown below. Director: Kinying Kwan Director: Johnny Shyang-Lin Shen Director: Herbert Chang Director: Daniel Wang Independent Director: Mao-Wei Hung Independent Director: Brian Chiang Independent Director: Binfu Chuang</p> <p>4. Approved and adopted.</p> <p>5. Approved and adopted.</p> <p>6. Approved and adopted.</p> <p>7. Approved and adopted.</p>

	8. The amendments to the “Guideline for Endorsement and Guaranty”. 9. Release the prohibition on Directors from participation in competitive industries.	8. Approved and adopted. 9. Approved.
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3.3.12 Major issues of record or written statements made by any Director or Independent Directors dissenting to important resolutions passed by the Board of Directors during the most recent year and the current year up to the date of publication of the annual report

None.

3.3.13 A summary of resignations and dismissals of persons connected with the company’s financial report (including the chairman, General Manager, Chief Accounting Officer, Chief Financial Officer, Chief Internal Auditor, Chief Research and Development Officer, etc.) during the most recent year and the current year up to the date of the publication of the annual report

None.

3.4 Information on CPA Professional Fees

3.4.1 Audit Fee

Name of Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Yi-Wen Wang	2019.01.01~2019.12.31	
	Cheng-Ming Lee		

Unit: NT\$ thousand

Fee Range		Fee Items	Audit Fee	Non-audit Fee	Total
1	Under NT\$ 2,000,000		-	1,562	1,565
2	NT\$2,000,000(inclusive)~ NT\$4,000,000		-	-	-
3	NT\$4,000,000(inclusive)~ NT\$6,000,000		5,873	-	5,873
4	NT\$6,000,000(inclusive)~ NT\$8,000,000		-	-	-
5	NT\$8,000,000(inclusive)~NT\$10,000,000		-	-	-
6	Over NT\$100,000,000 (inclusive)		-	-	-

In case of any of the following situations, the company shall disclose information as follows :

- A. Amount of non-auditing relevant fees charged by the appointed independent auditors and related parties reaching 25% of the Company's annual auditing expenses :

Unit: NT\$ thousand

Name of Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resources	Others	Subtotal		
Deloitte & Touche	Yi-Wen Wang	5,873	-	-	-	1,562	7,435	2019.01.01 ~ 2019.12.31	Non-audit fee includes price transfer and tax return
	Cheng-Ming Lee								

- B. When the company changes its accounting firm and the audit fees paid for the year in which such change took place are lower than those for the previous year, the amounts of the audit fees before and after the change and the reasons for change shall be disclosed : Not applicable.
- C. When the audit fees paid for the current year is more than 15 percent less than those for the previous year, the reduction in the amount of audit fees, reduction percentage, and reasons therefor shall be disclosed : Not applicable.

3.5 The Company's Chairman, Chief Executive Officer, Chief Financial Officer, and Managers in Charge of its Finance and Accounting Matters Has Held a Position at the Accounting Firm of its CPA or at an Affiliated Enterprise of Such Accounting Firm in the Most Recent Year

None.

3.6 Any Transfer, Pledge, or Other Change of Hands Involving the Equity Interests of a Director, Managerial Officer, or Shareholders Holding More Than 10% of the Shares of the Company during the Most Recent Year and the Current Year Up to the Date of the Publication of the Annual Report

3.6.1 Change in equity interests by Directors, managerial officers, or major shareholders

Unit: Shares

Title	Name	2019		As of Apr. 13, 2020	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	Kinying Kwan	(9,000)	0	(65,000)	0
Director	Herbert Chang	0	0	0	0
Director/ CEO	Johnny Shyang-Lin Shen	0	0	250,000	0
Director/ CFO	Daniel Wang (Note 1)	0	0	0	0
Director	Benjamin Jin-Ping Ng (Note 2)	0	0	0	0
Independent Director	Mao Wei Hung	0	0	0	0
Independent Director	Brian Chiang	0	0	0	0
Independent Director	Binfu Chuang	0	0	0	0
COO	Jacky Ni (Note 3)	0	0	0	0
Sales VP of Japan Business Unit	Kozo Fujita (Note 4)	0	0	0	0
GM of Japan Business Unit	Junichiro Hosaka	0	0	0	0
GM of US Business Unit	Hiroyuki Nagashima (Note 5)	0	0	0	0
GM of China Business Unit	Andy Lin	0	0	50,000	0
Sr. VP of Design Engineering	Leo Cheng	0	0	60,000	0
VP of Sales	Rober Chang	0	0	0	0
Financial Controller	Nancy Chan	0	0	16,500	0
VP of SA	Peter Teng (Note 6)	500	0	0	0

Note 1 : Mr. Daniel Wang was elected as Director at the Annual General Meeting on June 21, 2019.

Note 2 : Mr. Benjamin Jin-Ping Ng resigned from Director on June 21, 2019.

Note 3 : Mr. Jacky Ni resigned from COO on March 15, 2019.

Note 4 : Mr. Kozo Fujita is no longer as an insider as of March 15, 2019.

Note 5 : Mr. Hiroyuki Nagashima becomes an insider as of March 15, 2019.

Note 6 : Mr. Peter Teng becomes an insider as of March 15, 2019.

3.6.2 Information where the counterparty in any transfer of equity interests is a related party

None.

3.6.3 Information where the counterparty in any pledge of equity interests is a related party

None.

3.7 Relationship among the Top Ten Shareholders

Unit: shares

Name	Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Relationship between any of the Company's Top Ten Share holders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Cathay Life Insurance Co., Ltd.	2,950,000	4.83%	0	0	0	0	-	-	
Standard Chartered Bank (Taiwan) Limited as custodian of Credit Suisse Securities (Europe) Limited	2,191,000	3.59%	0	0	0	0	-	-	
Indus Select Master Fund, Ltd.	1,874,000	3.07%	0	0	0	0	-	-	
Morgan Standley Co. International PLC	1,362,229	2.23%	0	0	0	0	-	-	
JPMorgan Chase Bank N.A. Taipei Branch in custody for JPMorgan Funds	1,328,000	2.17%	0	0	0	0	-	-	
Johnny Shyang-Lin Shen	1,291,652	2.11%	0	0	0	0	-	-	
Public Service Pension Fund	1,284,000	2.10%	0	0	0	0	-	-	
Kadensa Master Fund	1,267,000	2.07%	0	0	0	0	-	-	
Nomura Taiwan Superior Equity Fund	1,197,000	1.96%	0	0	0	0	-	-	
UPAMC GREAT CHINA Fund	1,090,000	1.78%	0	0	0	0	-	-	

3.8 The Total Number of Shares and Total Equity Interest Held in any Single Enterprise by the Company, its Directors, Managerial Officers, General Manager, and any Companies Controlled Either Directly or Indirectly by the Company

December 31, 2019;Unit: shares/%

Investee Enterprise	Investment by the Company		Investment by Directors, Supervisors, Managerial Officers, General Manager, and Directly or Indirectly Controlled Companies		Total Investment	
	Shares	%	Shares	%	Shares	%
Alchip(HK)	12,230,170,100	100%	-	-	12,230,170,100	100%
Alchip(US)	391,000,000	100%	-	-	391,000,000	100%
Alchip (JP)	2,000	100%	-	-	2,000	100%
Alchip(TW)	10,000	100%	-	-	10,000	100%
Alchip (SH)	(Note)	100%	-	-	(Note)	100%
Alchip(Wuxi)	(Note)	100%	-	-	(Note)	100%
Alchip BVI	50,000	100%	-	-	50,000	100%
Alchip(Hefei)	(Note)	100%	-	-	(Note)	100%
Alchip(Jinan)	(Note)	100%	-	-	(Note)	100%

Note : Alchip(SH), Alchip(Wuxi) ,Alchip(Hefei) and Alchip(Jinan) are limited companies, so no shares issued.

Alchip Technologies, Limited
Statement on Internal Control System

Date: March 6, 2020

Based on the results of self assessment of the internal control system conducted by the Company for the fiscal year 2019, we hereby declare as follows:

- I. The company acknowledges and understands that the establishment, enforcement and preservation of the internal control system are the responsibility of the Board, and that the company has already established such a system. The purpose is to provide reasonable assurance to the effectiveness and efficiency of business operations (including profitability, performance and security of assets), reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations, and bylaws.
- II. There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the aforementioned goals. Moreover, the operating environment and situation may change, impacting the effectiveness of the internal control system. The internal control system of the Company features a self-monitoring mechanism. Once identified, any deficiency will be rectified immediately.
- III. The Company determines the effectiveness of the internal control system in design and enforcement in accordance with the “Regulations Governing Establishment of Internal Control Systems by Public Companies” (hereinafter referred to as “the Regulations”). The Regulations are instituted for judging the effectiveness of the design and enforcement of the internal control system. There are five components of effective internal control as specified in the Regulations with which the procedure for effective internal control is measured, namely: (1) Control environment, (2) Risk assessment, (3) Control activities, (4) Information and Communications, and (5) Monitoring activities. Each of the elements in turn contains certain audit items. Refer to the Regulations for details.
- IV. The Company has adopted the aforementioned internal control system for an internal audit on the effectiveness of the design and enforcement of the internal control system.
- V. Based on the aforementioned audit findings, the Company holds that it has reasonably preserved the achievement of the aforementioned with the internal control system as of December 31, 2019 (including the monitoring over the subsidiaries), including the effectiveness and efficiency in operation, reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with relevant regulatory requirements, and that the design and enforcement of internal control are effective.

- VI. This statement of declaration shall form an integral part of the annual report and prospectus of the company and will be publicly announced. If any fraudulent information, concealment or unlawful practices are discovered in the content of the aforementioned information, the Company shall be held liable under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
- VII. This statement was approved by the Board on March 6, 2020 in the presence of seven (7) directors, who concurred unanimously.

Alchip Technologies, Limited



Kinying Kwan
Chairman



Johnny Shyang-Lin Shen
CEO

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Capitalization

A. Issued shares

Unit:share/NT\$

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount (NT\$ thousand)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
2010.07	10	100,000,000	1,000,000,000	52,420,842	523,364,710	Capital surplus transferred to capital	None	-
2010.07	10	100,000,000	1,000,000,000	53,871,342	538,713,420	New shares issued upon the exercise of share options	None	-
2013.11	10	100,000,000	1,000,000,000	53,947,342	539,473,420	New Shares issued upon the exercise of share options	None	-
2014.03	10	100,000,000	1,000,000,000	54,113,342	541,133,420	New Shares issued upon the exercise of share options	None	-
2014.04-08	10	100,000,000	1,000,000,000	54,753,342	547,533,420	New Shares issued upon the exercise of share options	None	-
2014.09	10	100,000,000	1,000,000,000	54,784,842	547,848,420	New Shares issued upon the exercise of share options	None	-
2014.10-12	10	100,000,000	1,000,000,000	62,465,842	624,658,420	New shares issued through capital increase by cash	None	-
2014.10-12	10	100,000,000	1,000,000,000	63,481,815	634,818,150	New Shares issued upon the exercise of share options	None	-
2015.01-03	10	100,000,000	1,000,000,000	63,766,815	637,668,150	New Shares issued upon the exercise of share options	None	-
2015.08	10	100,000,000	1,000,000,000	61,567,815	615,678,150	Cancellation of Treasury Stocks	None	-
2016.11	10	100,000,000	1,000,000,000	60,702,815	607,028,150	Cancellation of Treasury Stocks	None	-
2017.07-12	10	100,000,000	1,000,000,000	61,001,038	610,010,380	New Shares issued upon the exercise of share options	None	-
2018.01-11	10	100,000,000	1,000,000,000	61,698,098	616,980,980	New Shares issued upon the exercise of share options	None	-
2018.12	10	100,000,000	1,000,000,000	59,773,098	597,730,980	Cancellation of Treasury Stocks	None	-
2019.01-12	10	100,000,000	1,000,000,000	60,612,932	606,129,320	New Shares issued upon the exercise of share options	None	-
2020.01-04	10	100,000,000	1,000,000,000	61,110,926	611,109,260	New Shares issued upon the exercise of share options	None	-

B. Capital and Shares

April 13, 2020; Unit: Share

Type of Stock	Authorized Capital			Remark
	Outstanding Shares	Un-issued Shares	Total Shares	
Common Stock	61,110,926	33,689,057	100,000,000	-

C. Information for shelf registration : Not applicable.

Securities Type	Volume to be issued		Issued Amount		Purpose of Issuance and Expected Benefits for Securities Issued	Scheduled Issuance Period for Securities Unissue	Remarks
	Total Shares	Authorized Amount	Shares	Price (NT\$)			
N/A							

4.1.2 Status of shareholders

April 13,2020

Item	Government Agencies	Financial Institutions	Treasury Stocks	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	0	9	0	190	8,974	129	9,302
Shareholding (shares)	0	3,316,000	0	13,215,136	20,641,183	23,938,607	61,110,926
Shareholding Percentage	0%	5.43%	0%	21.62%	33.78%	39.17%	100.00%

Note: The percentage of shareholding for the capital investment from China is 0.25%.

4.1.3 Shareholding distribution status

With par value of \$10 per share;April 13,2020;Unit:shares/%

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	3,630	42,911	0.07%
1,000 ~ 5,000	4,918	8,044,648	13.16%
5,001 ~ 10,000	334	2,733,002	4.47%
10,001 ~ 15,000	101	1,335,382	2.19%
15,001 ~ 20,000	63	1,175,500	1.92%
20,001 ~ 30,000	50	1,312,135	2.15%
30,001 ~ 40,000	33	1,207,652	1.98%
40,001 ~ 50,000	22	1,035,000	1.69%
50,001 ~ 100,000	60	4,319,240	7.07%
100,001 ~ 200,000	41	5,978,677	9.78%
200,001 ~ 400,000	23	6,877,000	11.25%
400,001 ~ 600,000	7	3,689,915	6.04%
600,001 ~ 800,000	5	3,439,520	5.63%
800,001 ~ 1,000,000	6	5,377,115	8.80%
1,000,001 or over	9	14,543,229	23.80%
Total	9,302	61,110,926	100.00%

4.1.4 List of major shareholders: List all shareholders with a stake of 5 percent or rank in the top 10 in shareholding percentage, and specify the number of shares and stake held by each shareholder on the list

April 13, 2020; Unit: shares/%

Shareholder's Name	Shareholding	
	Shares	Percentage
Cathay Life Insurance Co., Ltd.	2,950,000	4.83%
Standard Chartered Bank (Taiwan) Limited as custodian of Credit Suisse Securities (Europe) Limited	2,191,000	3.59%
Indus Select Master Fund, Ltd.	1,874,000	3.07%
Morgan Standley Co. International PLC	1,362,229	2.23%
JPMorgan Chase Bank N.A. Taipei Branch in custody for JPMorgan Funds	1,328,000	2.17%
Johnny Shyang-Lin Shen	1,291,652	2.11%
Public Service Pension Fund	1,284,000	2.10%
Kadensa Master Fund	1,267,000	2.07%
Nomura Taiwan Superior Equity Fund	1,197,000	1.96%
UPAMC GREAT CHINA Fund	1,090,000	1.78%

4.1.5 Market price, net worth, earnings per share, dividends per common share

Unit: NT\$; Thousand of Shares

Items	2018	2019	As of April 13, 2020
Market Price per Share			
Highest Market Price	165	255.50	266
Lowest Market Price	61.6	64.20	148.45
Average Market Price	109.91	123.13	216.54
Net Worth per Share			
Before Distribution	48.87	54.47	-
After Distribution	47.35	(Note 1)	-
Earnings per Share			
Weighted Average Shares(thousand shares)	61,039	60,176	-
Basic Earnings Per Share	4.22	7.20	-
Dividends per Share			
Cash Dividends	1.516	(Note1)	-
Stock Dividends			
Dividends from Retained Earnings	-	-	-
Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends	-	-	-
Return on Investment			
Price / Earnings Ratio (Note2)	26.05	17.10	-
Price / Dividend Ratio (Note 3)	72.50	(Note 1)	-
Cash Dividend Yield Rate (Note 4)	0.014	(Note 1)	-

Note 1 : Pending on the approval of 2020 shareholders' meeting.

Note 2 : Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 3 : Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 4 : Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

4.1.6 Company's Dividend Policy and Implementation Status

A. The Company's Dividend Policy: The regulations of dividend distribution are shown below in accordance to the Memorandum and Articles of Association of the Company.

- (1) The Company shall set aside no less than 1% of its annual profits (the annual profits specified in this Article refers to the annual income before tax and before bonuses are set aside for employees and Directors) as bonus to employees of the Company and set aside no more than 2% of its annual profits as bonus to Directors, provided however that the Company shall first offset its losses in previous years that have not been previously offset. The distribution of bonus to employees may be made by way of cash or Shares, which may be distributed under an incentive programme approved pursuant to Article 11.1 above. The employees under Article 34.1 may include certain employees of the Subsidiaries who meet the conditions prescribed by the Company. The distribution of bonus to employees and to Directors shall be approved by a majority of the Directors present at a meeting attended by two-thirds or more of the total number of the Directors and shall be reported to the Members at the general meeting. A Director who also serves as an executive officer of the Company and/or its Subsidiaries may receive a bonus in his capacity as a Director and a bonus in his capacity as an employee.
- (2) As the Company is in the growing stage, the dividend distribution may take the form of a cash dividend and/or stock dividends and shall take into consideration the Company's capital expenditures, future expansion plans, and financial structure and funds requirement for sustainable development needs etc. The Company may distribute profits in accordance with a proposal for distribution of profits prepared by the Directors and approved by the Members by an Ordinary Resolution at any general meeting. The Directors shall prepare such proposal as follows: the proposal shall begin with the Company's Annual Net Income after tax and offset its losses in previous years that have not been previously offset, and set aside a special capital reserve, if one is required, in accordance with the Applicable Public Company Rules or as requested by the authorities in charge. Except otherwise stipulated by the applicable laws and the Applicable Public Company Rules, the Company may take into consideration the circumstances and development stage of the Company, in response to any future funding requirement and long term financial planning, while satisfying the shareholders expectation in respect of cashflow, propose profit distribution plan in connection with the retained earnings for approval at the meetings of the shareholders; the distribution of retained earnings may proceed by way of cash dividend or by applying such sum in paying up in full unissued Shares for allotment and distribution credited as fully paid-up pro rate to the Members, and the total amount of Dividends shall not be lower than 10% of the profit of the then current year after deducting the aforementioned amounts, and provided the total amount of cash dividend to be distributed shall be no lower than 10% of the aggregate dividend distributed to shareholders and no more than 100% of the aggregate dividend distributed to shareholders.
- (3) Subject to the Statute, the Articles and the Applicable Public Company Rules, the Directors may declare Dividends and distributions on Shares in issue and authorise payment of the Dividends or distributions out of the funds of the Company lawfully available therefor. No Dividend or distribution shall be paid except out of the realised or unrealised profits of the Company, or out of the share premium account or as otherwise permitted by the Statute.
- (4) Except as otherwise provided by the rights attached to Shares, all Dividends shall be declared and paid in proportion to the number of Shares that a Member holds. If any Share is issued on terms providing that it shall rank for Dividend as from a particular date that Share shall rank for Dividend accordingly.
- (5) The Directors may deduct from any Dividend or distribution payable to any Member all sums of money (if any) then payable by him to the Company on any account.

- (6) The Directors may, after obtaining an Ordinary Resolution, declare that any distribution other than a Dividend be paid wholly or partly by the distribution of specific assets and in particular of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.
- (7) Any Dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent.
- (8) No Dividend or distribution shall bear interest against the Company.
- (9) Any Dividend which cannot be paid to a Member and/or which remains unclaimed after six months from the date of declaration of such Dividend may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the Dividend shall remain as a debt due to the Member. Any Dividend which remains unclaimed after a period of six years from the date of declaration of such Dividend shall be forfeited and shall revert to the Company.

B. Proposed Distribution of Dividend for 2020 Annual General Meeting

The company will propose distribution of cash dividend US\$7,216,415 (US\$0.11901 per share) at the 2020 Annual General Meeting.

4.1.7 The influence of stock dividend distribution resolved by 2019 Annual General Meeting on the Company's operating performance and earning per share (EPS)

Not applicable.

4.1.8 Directors' Remuneration and Employee Compensation

A. The percentages or ranges with respect to compensation to employees and Directors as set forth in the company's Articles of Incorporation:

The Company will allocate no less than 1% as compensation to employees and no more than 2% as compensation to Directors of its profits before tax prior to the deduction of compensation to employees and Directors for the year, respectively.

B. The basis for estimating the amount of compensation to employees and Directors, the basis for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

The Company estimated 2019 distribution of compensation to employees and directors are US\$1,510,478 and US\$377,619 respectively. If there is discrepancy between the actual distributed amount and the estimated figure, it will be adjusted to enter into accounts according to changes in accounting estimate at the year of distribution.

C. Information on the distribution of compensation approved by the Board of Directors:

- (1) Distribution in cash or shares of compensation to employees and Directors. If there are any discrepancies between such an amount and the estimated figure for the year these expenses are recognized, the discrepancy, reasons therefor, and how it is treated shall be disclosed: None.
- (2) The amount of distribution in shares of compensation to employees, and as a percentage of the sum of the current after-tax net income on individual or separate financial statements and total compensation to employees: None.

D. The actual distribution of compensation to employees and Directors for the previous year (including the share number, dollar amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized compensation to employees and directors, additionally the discrepancy, reasons therefor, and how it is treated: There is no discrepancy between the actual distribution and recognized compensation to employees and directors.

4.1.9 List of Share Buyback as of April 13, 2020

Batch Order	1 st Batch	2 nd Batch	3 rd Batch	4 th Batch	5 th Batch
Purpose of the Buyback	Maintain the company's credibility and shareholders' equity	Maintain the company's credibility and shareholders' equity	Maintain the company's credibility and shareholders' equity	Maintain the company's credibility and shareholders' equity	Maintain the company's credibility and shareholders' equity
Actual Buyback period	2015/03/06~2015/05/05	2015/05/15~2015/06/12	2016/8/26~2016/9/26	2017/3/13~2017/5/9	2018/9/12~2018/10/30
Price range for Buybacks	NT\$50.05 to NT\$123.82	NT\$35.91 to NT\$87.58	NT\$19.01~ NT\$41.21	NT\$28.88 ~NT\$57.54	NT\$64.26 ~NT\$167.94
Number of shares bought back	1,015 thousand shares of common stock	1,184 thousand shares of common stock	865 thousand shares of common stock	0 shares of common stock	1,925 thousand shares of common stock
Total Value of Shares bought back	NT\$60,917,192	NT\$52,462,561	NT\$21,692,815	NT\$0	NT\$157,947,222
The ratio of number of shares buyback to number of expected shares buyback	50.75%	59.20%	86.50%	0%	96.25%
Number of shares that have already been canceled and transferred	1,015 thousand shares of common stock	1,184 thousand shares of common stock	865 thousand shares of common stock	0 shares of common stock	1,925 thousand shares of common stock
Accumulated number of shares held by the Company	0 share of common stock	0 share of common stock	0 share of common stock	0 share of common stock	0 shares of common stock
Ratio of the accumulated number of shares held by the Company to the total number of ordinary shares issued	0%	0%	0%	0%	0%

4.1.10 Information on the Company's issuance of bonds

None.

4.1.11 Information on issuance of preferred shares

None.

4.1.12 Information on issuance of global depository receipts

None.

4.1.13 Employee Stock Options

A. Issuance of Employee Stock Options

March 31, 2020

Types of Employee Stock Options	Employee Stock Options in 2003 (Note 2(1))	Employee Stock Options in 2015		Employee Stock Options in 2016		Employee Stock Options in 2017							
		March 30, 2015	April 24, 2015	March 4, 2016	November 11, 2016	April 26, 2016	November 28, 2017	December 5, 2017	January 5, 2017	February 7, 2018			
Approval date	Not applicable												
Issue date	(Note 2(2))												
Units issued	14,518,700		864,000	1,136,000	1,200,000	800,000	330,000	500,000	329,000	95,000			
Shares of stock options to be issued as a percentage of outstanding shares	23.90%		1.42%	1.87%	1.98%	1.32%	0.54%	0.82%	0.54%	0.16%			
Period	The stock options shall be valid for 10 years from the Grant date and shall expire after such period												
Method of performance	Issuance of new shares												
Period and percentage in which subscription is restricted (%)	(Note 2(3))	After two full years, 50% of stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised.											
Exercised shares	7,488,633	322,859	445,244	334,750	249,250	15,000	0	17,000	5,000				
Amount of the shares exercised	US\$9,453,553.95	NT\$18,428,685	NT\$16,735,720	NT\$8,479,750	NT\$10,313,175	NT\$1,248,000	US\$0	NT\$1,660,900	NT\$477,000				
Unexercised shares	10,000	486,141	508,256	640,250	377,000	300,000	420,000	260,000	65,000				
Price per share of the unexercised shares	An average of US\$2.4706	NT\$56.50	NT\$37.20	NT\$25.00	NT\$41.10	NT\$83.20	NT\$76.80	NT\$97.70	NT\$95.40				

Percentage of unexercised shares to total issued shares	0.02%	0.80%	0.84%	1.05%	0.62%	0.49%	0.69%	0.43%	0.11%
Number of invalid shares (Note 1)	7,020,067	55,000	182,500	225,000	173,750	15,000	80,000	52,000	25,000
Impact on possible dilution of shareholdings	(Note 2(4))	Financial Statements will be presented in accordance with the International Accounting Standards. However, after two full years upon expiration of the employee stock options granted by the Company, 50% of the granted stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised. The influence on shareholders' interests will be gradually diluted.							

Note 1: The number of invalid shares were from employees' turnover and expired employee stock options.

Note 2: (1) Amendments to 2003 Employee Stock Options have been adopted by the Board of Directors in July 2010 to replace the aforementioned rules.

(2) 1,500,000 shares were issued on 2003/04/09; 505,200 shares were issued on 2003/06/06; 940,000 shares were issued on 2003/08/08; 179,600 shares were issued on 2003/10/13; 964,000 shares were issued on 2003/12/22; 374,200 shares were issued on 2004/04/02; 293,000 shares were issued on 2004/06/18; 732,400 shares were issued on 2005/01/14; 219,000 shares were issued on 2005/04/15; 995,000 shares were issued on 2005/07/15; 318,000 shares were issued on 2005/12/16; 230,000 shares were issued on 2006/01/17; 610,600 shares were issued on 2006/04/20; 412,000 shares were issued on 2006/07/31; 644,000 shares were issued on 2006/10/18; 474,000 shares were issued on 2007/01/29; 411,500 shares were issued on 2007/04/27; 950,000 shares were issued on 2007/09/21; 892,500 shares were issued on 2007/10/19; 357,000 shares were issued on 2008/01/25; 627,300 shares were issued on 2008/04/29; 421,000 shares were issued on 2008/07/25; 530,000 shares were issued on 2008/10/30; 282,000 shares were issued on 2009/02/05; 248,000 shares were issued on 2009/04/24; 321,000 shares were issued on 2009/07/31; 424,000 shares were issued on 2009/10/30; 392,000 shares were issued on 2010/01/15; 139,000 shares were issued on 2010/05/07.

(3) After one full year, 25% of stock options can be exercised, with 1/48 of the total shares vesting every month.

(4) Financial Statements will be presented in accordance with the International Accounting Standards. However, after one full year upon expiration of the employee stock options granted by the Company, 25% of the granted stock options can be exercised, with 1/48 of the total shares vesting every month. The influence on shareholders' interests will be gradually diluted. There are 10,000 shares that are estimated to be able to subscribe by the end of 2020, accounted for 0.02% of 60,744,176 shares of common stocks current issued and outstanding currently.

Types of Employee Stock Options	Employee Stock Options in 2017		Employee Stock Options in 2018			
	April 25, 2017		May 21, 2018			
Approval date	March 30, 2018	April 18, 2018	August 10, 2018	September 20, 2018	March 19, 2019	May 20, 2019
Issue date	250,000	200,000	500,000	500,000	500,000	500,000
Units issued	0.41%	0.33%	0.82%	0.82%	0.82%	0.82%
Shares of stock options to be issued as a percentage of outstanding shares						
Period	The stock options shall be valid for 10 years from the Grant date and shall expire after such period					
Method of performance	Issuance of new shares					
Period and percentage in which subscription is restricted (%)	After two full years, 50% of stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised.					
Exercised shares	2,500	0	0	0	0	0
Amount of the shares exercised	NT\$294,250	NT\$0	NT\$0	NT\$0	NT\$0	NT\$0
Unexercised shares	227,500	177,000	455,000	461,000	497,000	485,000
Price per share of the unexercised shares	NT\$117.70	NT\$123.60	NT\$121.60	NT\$87.40	NT\$75.10	NT\$74.40
Percentage of unexercised shares to total issued shares	0.37%	29%	0.75%	0.76%	0.82%	0.80%
Number of invalid shares (Note 1)	20,000	23,000	45,000	39,000	3,000	15,000
Impact on possible dilution of shareholdings	Financial Statements will be presented in accordance with the International Accounting Standards. However, after two full years upon expiration of the employee stock options granted by the Company, 50% of the granted stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised. The influence on shareholders' interests will be gradually diluted.					

Note 1 : The number of invalid shares were from employees' turnover and expired employee stock options.

Employee Stock Options in 2019				
Types of Employee Stock Options				
Approval date	May 21, 2019			
Issue date	August 7, 2019	November 7, 2019	November 22, 2019	February 18, 2020
Units issued	500,000	40,000	160,000	150,000
Shares of stock options to be issued as a percentage of outstanding shares	0.82%	0.07%	0.26%	0.25%
Period	The stock options shall be valid for 10 years from the Grant date and shall expire after such period			
Method of performance	Issuance of new shares			
Period and percentage in which subscription is restricted (%)	After two full years, 50% of stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised.			
Exercised shares	0	0	0	0
Amount of the shares exercised	NT\$0	NT\$0	NT\$0	NT\$0
Unexercised shares	490,000	40,000	153,000	150,000
Price per share of the unexercised shares	NT\$95.70	NT\$185.50	NT\$206.00	NT\$208.00
Percentage of unexercised shares to total issued shares	0.81%	0.07%	0.25%	0.25%
Number of invalid shares (Note 1)	10,000	0	7,000	0
Impact on possible dilution of shareholdings	Financial Statements will be presented in accordance with the International Accounting Standards. However, after two full years upon expiration of the employee stock options granted by the Company, 50% of the granted stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised. The influence on shareholders' interests will be gradually diluted.			

Note 1 : The number of invalid shares were from employees' turnover and expired employee stock options.

B. List of executives and the top ten employees receiving Employee Stock Options

March 31, 2020

	Title	Name	No. of Subscribed Shares	Ratio of Subscribed Shares to Total Issued Shares	Exercised				Unexercised			
					No. of Shares	Price (US\$)	Amount (US\$ thousand)	Ratio of Shares to Total Issued Shares	No. of Shares	Price (US\$)	Amount (US\$ thousand)	Ratio of Shares to Total Issued Shares
	CEO	Johnny Shyang-Lin Shen			45	2,5901	112.91	0.07%	0	2,5901	0	0%
	COO	Jacky Ni (Note 16)			80	1,7999 (Note1)	143.98	0.13%	400	1,7999 (Note1)	719.97	0.66%
	Sales VP of Japan Business Unit	Kozo Fujita (Note 17)			40	1,1851 (Note2)	47.40	0.07%	219	1,1851 (Note2)	395.93	0.36%
	GM of Japan Business Unit	Junichiro Hosaka			30	0,7964 (Note3)	23.89	0.05%	945	0,7964 (Note3)	752.60	1.56%
	GM of China Business Unit	Andy Lin			0	1,3093 (Note4)	0	0%	50	1,3093 (Note4)	65.47	0.08%
	GM of US Business Unit	Hiroyuki Nagashima (Note 18)		5.06%	0	2,6505 (Note5)	0	0%	70	2,6505 (Note5)	185.54	0.12%
	VP of Design Engineering	Leo Cheng			0	2,4466 (Note6)	0	0%	500	2,4466 (Note6)	1,223.30	0.82%
	VP of Sales	Rebert Chang			0	3,1125 (Note7)	0	0%	15	3,1125 (Note7)	46.69	0.02%
	CFO	Daniel Wang			0	3,8738 (Note8)	0	0%	320	3,8738 (Note8)	1,239.62	0.53%
	Financial Controller	Nancy Chan			0	2,3925 (Note9)	0	0%	360	2,3925 (Note9)	861.30	0.59%
	VP of SA	Peter Teng (Note 19)			0							
Executives												

	Title	Name	No. of Subscribed Shares	Ratio of Subscribed Shares to Total Issued Shares	Exercised				Unexercised			
					No. of Shares	Price (US\$)	Amount (US\$ thousand)	Ratio of Shares to Total Issued Shares	No. of Shares	Price (US\$)	Amount (US\$ thousand)	Ratio of Shares to Total Issued Shares
					43	2,5091	107.89	0.07%	0	2,5091	0	0%
	Director of Design Solution	Doni Ding			110	1,7999 (Note1)	197.99	0.18%	70	1,7999 (Note1)	125.99	0.12%
	Deputy GM of Japan Business Unit	Hiroyuki Furuzono			98.5	1,1851 (Note2)	116.73	0.16%	94.5	1,1851 (Note2)	111.99	0.16%
	VP of Corporate Marketing	David Chiang			36.25	0,7964 (Note3)	28.87	0.06%	38.75	0,7964 (Note3)	30.86	0.06%
	Director of Corporate HR	Daisy Hsu			19	1,3093 (Note4)	24.88	0.03%	19	1,3093 (Note4)	24.77	0.03%
	VP of R&D	James Huang			0	2,6505 (Note5)	0	0%	170	2,6505 (Note5)	450.59	0.28%
	VP of MFG Engineering	Vincent Ku		1.92%	0	3,1125 (Note7)	0	0%	30	3,1125 (Note7)	93.38	0.05%
	Sr. Director of Circuit Technologies	Allan Lin	1,163.6		0	3,7496 (Note10)	0	0%	10	3,7496 (Note10)	37.50	0.02%
	Director of Design Engineering	Mitsuya Takashima			0	3,8738 (Note8)	0	0%	85	3,8738 (Note8)	329.27	0.14%
	Director of Design Engineering	Feiwei Wu			0	2,7843 (Note11)	0	0%	29.6	2,7843 (Note11)	82.42	0.05%
	Director of Design Engineering	Jokie Zhou			0	2,3925 (Note9)	0	0%	50	2,3925 (Note9)	119.63	0.08%
					0	2,3702 (Note12)	0	0%	145	2,3702 (Note12)	343.68	0.24%
					0	3,0487 (Note13)	0	0%	30	3,0487 (Note13)	91.46	0.05%
					0	6,7519 (註 14)	0	0%	20	6,7519 (註 14)	135.04	0.03%
	Top Ten Employees											

						0	6,9103 (註 15)	0	0%	65	6,9103 (註 15)	449.17	0.11%
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Note 1: The price of the stock option is NT\$56.50.

Note 2: The price of the stock option is NT\$37.20.

Note 3: The price of the stock option is NT\$25.00.

Note 4: The price of the stock option is NT\$41.10.

Note 5: The price of the stock option is NT\$83.20.

Note 6: The price of the stock option is NT\$76.80.

Note 7: The price of the stock option is NT\$97.70.

Note 8: The price of the stock option is NT\$121.60.

Note 9: The price of the stock option is NT\$75.10.

Note 10: The price of the stock option is NT\$117.70.

Note 11: The price of the stock option is NT\$87.40.

Note 12: The price of the stock option is NT\$74.40.

Note 13: The price of the stock option is NT\$95.70.

Note 14: The price of the stock option is NT\$206.00.

Note 15: The price of the stock option is NT\$208.00.

Note 16: Mr. Jacky Ni resigned from COO on March 15, 2019.

Note 17: Mr. Kozo Fujita is no longer as an insider as of March 15, 2019.

Note 18: Mr. Hiroiyuki Nagashima becomes an insider as of March 15, 2019.

Note 19: Mr. Peter Teng becomes an insider as of March 15, 2019.

C. Status of any private placement of employee stock warrants during the 3 most recent years and up to the date of the publication of the Annual Report:

None.

4.1.14 Issuance of New Restricted Employee Shares

None.

4.1.15 Status of mergers or acquisitions

None.

4.1.16 Issuance of new shares for merging and transferring the stocks of other companies

None.

4.2 Implementation of Fund Usage Plan

None.

V. Overview of Business Operations

5.1 Business Activities

5.1.1 Business scope

A. Main areas of business operations

Alchip engages in Application Specific IC (ASIC) and System-on-Chip (SoC) design, manufacturing and production, and is especially good at deep-submicron and high-end processing chips with high complexity.

B. Operational proportion

Unit: NT\$ thousand; %

Category	2018		2019	
	Amount	%	Amount	%
ASIC and Chip production	3,302,059	95.69	4,314,253	99.59
NRE	30,720	0.89	13,372	0.31
Others	117,899	3.42	4,331	0.10
Total	3,450,678	100.00	4,331,956	100

C. Main products and Services

- (1) ASIC and Chip production: Provide customers with Non-Recurring Engineering (NRE) of Application Specific Integrated Circuit (ASIC) and System on Chip (SoC), and mass production management of wafer manufacturing, packaging, and testing.
- (2) Non-Recurring Engineering (NRE): Mainly provide the circuit design component database and all kinds of Silicon Intellectual Property (SIP) required by product design, produce circuit diagrams for mask process, and manufacture masks, wafer, cutting, and packaging on a consign basis and then deliver the trial production samples after doing product testing by our engineers.
- (3) Others: Only provide customers with back-end wafer fabrication, packaging, and testing.

D. New products development

The Company is committed to R&D and manufacturing of leading edge integrated circuit, including custom design utilities and Design Methodology to ensure quality services. It also provides the most effective solution for AI/HPC market demands and establishes corresponding platforms and Silicon Intellectual Property portfolio (including: DDR/PCIE/HBM/D2D/SERDES).

5.1.2 Industry overview

A. Current status and Development of the Industry

With the great leap forward in semiconductor process technology, the complexity of chips is getting higher and higher. The semiconductor industry announces to enter an era of specialization. The Company specially provides design and manufacturing services of Application Specific Integrated Circuit (ASIC) and System on Chip (SoC) with high complexity and mass production. The current status and development of the industry is described as follows:

(1) Rise of fabless ASIC

In the past, a system company could choose to develop its own ASIC/SoC to get the advantage of differentiation and stay competitive, or to entrust the turnkey production process including design, manufacturing, packaging, and testing to reliable ASIC partners (such as IBM and LSI Logic). However, as the process technology enters into the generation of deep submicron, expenditures on

R&D in technology, investments in machinery, equipment, and factories rise rapidly. The existing Integrated Design Manufacturers (IDMs) are unable to afford the investment in the infrastructure and overtaken by pure-play foundries. As a result, more system companies concentrate resources on product specifications and front-end design, and outsource the back-end design and production of products to professional fabless ASIC companies.

Through collaboration with strategic partners (including wafer fabrication, packaging, and testing house), a fabless ASIC company provides a complete solution from RTL/Netlist to chip manufacturing, packaging, and testing. Thus, the system company enjoys the faster time to market, lower costs, and more professional design capability.

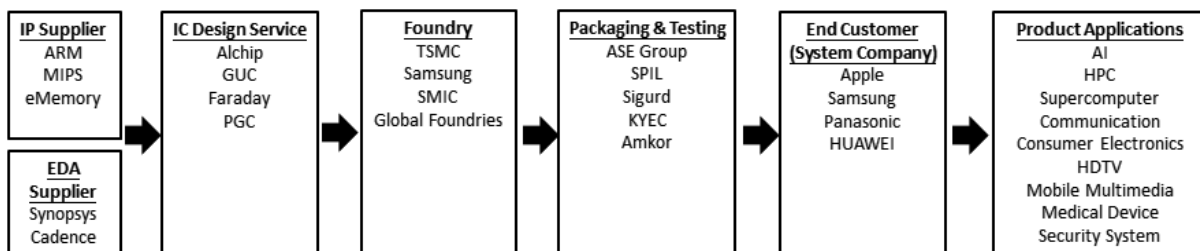
(2) Overview of System on Chip (SoC)

With the evolution of IC manufacturing process and many consumer electronics development towards miniaturization, the market demand for thin, short, power-saving multifunction increase dramatically, this makes SoC become the trend for the development of system companies in the future. SoC refers to the integration of the core processor, logic unit, memory unit, and a variety of I/O interfaces onto a single chip. One chip alone can get the system function completely and leave the extra space to chips performing other different functions, such as GPS positioning, WiMax, Audio/Video IC, camera IC, TV chip, etc. through which the operational functions of system products can be enhanced.

While foundry process is moving towards nanoscale node and external IPs are broadly adopted, SoC designer faces challenges from design validation and analysis. The growing SoC integration difficulty leads to surge of investment and risk in an SoC project. By preparing total design solutions tightly coupled with manufacturing process, the Company provides services with high add-on values to its customers. Very few fabless ASIC companies in the industry are capable of designing high-end SoC, therefore the Company’s design capacity is fully occupied in most of time. Plenty of future growth can be expected that big system companies will outsource more SoC designs.

B. Relevance among the upper-stream, middle-stream and down-stream in the industry

The fabless ASIC industry drives the development of all system applications, silicon intellectual property (SIP), manufacturing, packaging, testing, etc., forming the industry chain with specialization and division of labor. Each performs one’s own functions as shown below :



C. Trends of product development

(1) Application Specific Integrated Circuit (ASIC): It refers to an integrated circuit used in the particular application. On the circuit board, one unit of ASIC chip specifically designed by each company can always be found. Over the last few years, some of the outstanding tech breakthroughs such as AI chips, big data and AI algorithms stand out to be the new technology. These technologies become the main focus of ASIC application market. Artificial intelligence has rapidly expanded in the fields of cloud computing, deep learning, security monitoring, intelligent manufacturing and automatic driving, and has become the competitive target in semiconductor industry. In addition, the ASIC chip application market is broadly divided into six segments including Computers and Peripherals, Wired Communications, Wireless Communications, Consumer, Automotive, and Industrial and Others. In

which, consumer electronics still account for the highest proportion with the growth momentum mainly coming from mobile communications and high-definition TV applications, and wireless communications, computers, and peripherals coming in second.

- (2) System on Chip (SoC): With the evolution of the process, all system functions can be integrated into a single chip. That is, the platform-based design method can be achieved through the highly integrated SoC. This design method can effectively solve issues such as the complexity and time to market of different grades of products. In the future, we can foresee that the consumer electronics can be platformized as a result of the design trend of SoC integrated chips.

D. Market competition

The primary competitors of fabless ASIC companies are Integrated Design Manufacturer (IDM) and companies of the same type. As we shift into the generation of deep submicron, large IDMs begin to decline and find themselves unable to compete with fabless ASIC companies because of the high cost of production. Currently, most IDMs gradually transform into the Fab-lite/Fabless model. Moreover, in the competition with other companies of the same type, the time to market of products becomes the main appeal of fabless ASIC customers. With the continuous improvement of the processing speed of chips, and the algorithm of modulation and demodulation becoming more complex at the same time, the designers have to evaluate carefully how to define and optimize the low-power consumption strategy for the entire chip in the shortest design cycle, and think deeply about how the package design can tolerate the ultra-high power consumption to ensure the signal quality of high-speed interfaces. Therefore, with excellent integrated services of chip design technologies and manufacturing solutions, Alchip acts as a leading fabless ASIC company in this competitive global semiconductor market.

5.1.3 Research and Development

A. In 2019 and 2018, the Company invested NT\$685,741 thousand and NT\$620,393 thousand in R&D respectively.

B. Technologies have been developed successfully

Alchip combines the software tools for design (EDA) and design technologies that are researched and developed internally, including circuits, physical design, and unique software tools for design, to provide customers with services improving efficiency, reduced size, lower power consumption, and fast deployment. Technologies that are researched and developed internally are shown below:

- (1) Hierarchical physical design and timing budgeting method: Through this method, the chip design can be divided into multiple parts that can be designed at the same, grasp the timing of each part while controlling the timing for each part to meet timing requirements for chips.
- (2) Physical design method: Through this method, various types of Silicon Intellectual Property (IP) are used in the high-density chip design to reduce the chip size and achieve cost cutting goals.
- (3) Timing and electrical design method: This method can improve the defect-free rate by adjusting several parameters.
- (4) Power consumption distribution method: This method can reduce power consumption and enhance electrical efficiency.
- (5) Design for Testability (DFT): This method can maximize the scope of testability and reduce other unnecessary tests reduce the testing time and cost.
- (6) Technology in the stage of product planning and specification development: Alchip conducts the cost planning for customers, including the selection of System-on-Chip (SoC) or System in Package (SiP), planning of system cost and bill of material (BOM) costs, consideration of process maturity and Silicon

Intellectual Property (IP) stability, feasibility of next-generation process (half node), and evaluation on Static Random Access Memory (SRAM) repair. It also makes selection for testing of finished products and solutions, including the joint development of test solutions with IP vendors, establishment of built-in test module (DFT, BIST), and with testing machines to achieve mass production, adoption of two sets, four sets, or even eight sets of circuit boards being tested simultaneously while making mass production to save testing cost. Finally, it develops the most appropriate packaging approach and builds a good partnership with the packaging house to exploit the best quality of the finished product and market efficiency.

- (7) Prototype and technology in the stage of production: In the prototype creation and chip mass production stage, Alchip works closely with suppliers via professional equipment and technology (built-in testing machines and test grips) to help customers reduce the time taken to enter mass production while analyzing product characteristics and sensitivity, and to formulate process conditions and test specifications for the mass production process. It also provides a small number of prototypes for customers to manufacture system engineering prototyping machines. In the final acceptance inspection process of prototyping machines of customers, Alchip prepares the mass production of chips, including the analysis on reliability/qualification. Upon entering mass production, it continues to improve the defect-free rate and shorten the testing time to reduce production costs for customers.

C. Products have been developed successfully

Alchip have developed 420 units of products since its establishment. Products can be divided into three domains as described below:

Three domains	Product application	Current status/Process	Design outlook and planning
AI/HPC/ Communication Category	AI	<ul style="list-style-type: none"> • Including 28nm/16nm/12nm • 2018: 2 design cases, have been in mass production • 2019: 2 design cases, have been in mass production 	Continued to design and mass produce the chips required by system big firms.
	HPC	<ul style="list-style-type: none"> • Including 40nm/16nm • 2018: 3 design cases, have been in mass production • 2019: 2 design cases, have been in mass production 	Continued to design and mass produce the chips required by system big firms.
	Information Network Equipment	<ul style="list-style-type: none"> • Including 65nm/55nm/40nm/16nm • 2010: 1 design case, has been in mass production • 2011: 3 design cases, have been in mass production • 2012: 2 design cases, have been in mass production • 2013: 2 design cases, have been in mass production • 2019: 2 design cases, have been in mass production 	Continued to design and mass produce the chips required in communication network LTE, TD-SCDMA for communication big firms.
	Supercomputer	<ul style="list-style-type: none"> • Including 90nm/65nm/40nm/28nm/16nm • 2006: 1 design case, has been in mass production 	<ul style="list-style-type: none"> • Continue to mass produce supercomputer

		<ul style="list-style-type: none"> • 2010: 1 design case, has been in mass production • 2012: 2 design cases, have been in mass production • 2013: 2 design cases, have been in mass production • 2014: 1 design case, has been in mass production • 2015: 2 design cases, have been in mass production • 2016: 3 design cases, have been in mass production • 2017: 3 design cases 	<p>networking chips for academic institutions.</p> <ul style="list-style-type: none"> • Cooperate with Z University in 2006, as the world's fastest supercomputer at that time.
Consumer Electronics Category	High-Definition Camera Recorder	<ul style="list-style-type: none"> • Including 65nm/55nm/40nm • A total of 8 design cases, have been in mass production 	Continued to design and mass produce the chips required by Japan's DSC big firms.
	High-Definition Digital TV Related Applications	<ul style="list-style-type: none"> • Including 65nm/40nm/32nm • 2010: 7 design cases, have been in mass production • 2011: 6 design cases, have been in mass production • 2012: 5 design cases, have been in mass production • 2013: 8 design cases, have been in mass production • 2014: 1 design case, has been in mass production • 2015: 3 design cases, have been in mass production • 2016: 1 design case, has been in mass production • 2017: 1 design case, has been in mass production • 2018: 1 design case, has been in mass production • 2019: 1 design case, has been in mass production 	<ul style="list-style-type: none"> • Continued to design and mass produce the chips for Japan's digital TV big firms. • Have begun to design the new generation of products.
	Digital Camera	<ul style="list-style-type: none"> • Including 65nm/55nm/40nm/28nm/14nm • 2010: 3 design cases, have been in mass production • 2011: 3 design cases, have been in mass production • 2012: 3 design cases, have been in mass production • 2013: 2 design cases, have been in mass production • 2015: 3 design cases, have been in mass production 	Continued to design and mass produce the chips for the first manufacturer in the world to develop digital cameras.

		<ul style="list-style-type: none"> • 2016: 1 design case, has been in mass production • 2017: 1 design case, has been in mass production • 2018: 2 design cases, have been in mass production 	
	Mobile Phone	<ul style="list-style-type: none"> • Including 90nm/55nm/40nm/28nm • 2010: 2 design cases, have been in mass production • 2011: 3 design cases, have been in mass production • 2012: 2 design cases, have been in mass production • 2013: 1 design case, has been in mass production • 2014: 1 design case, has been in mass production 	Continued to design and mass produce the chips required by communication big firms.
	Multimedia Player	<ul style="list-style-type: none"> • Including 180nm/130nm/90nm • 2009: 4 design cases, have been in mass production • 2011: 1 design case, has been in mass production • 2012: 1 design case, has been in mass production 	Continued to design and mass produce the chips required by multimedia big firms.
	Tablet PC	<ul style="list-style-type: none"> • Including 55nm • 2011: 1 design case, has been in mass production 	Continued to design and mass produce the chips required by multimedia big firms.
	Game Machine	<ul style="list-style-type: none"> • Including 90nm/65nm/40nm/28nm • 2012: 1 design case, has been in mass production 	Continued to design and mass produce the chips required by video game machine big firms.
	SSD Device	<ul style="list-style-type: none"> • Including 28nm/16nm • 2019: 2 design cases, have been in mass production 	Continued to design and mass produce the chips required by SSD storage device big firms.
Niche Market Category	Bitcoin/Litecoin Mining Machine	<ul style="list-style-type: none"> • Including 28nm/20nm/16nm/14nm/12nm/7nm • 2013: 3 design cases, have been in mass production • 2014: 5 design cases, have been in mass production • 2015: 2 design cases, have been in mass production • 2018: 2 design cases, have been in mass production • 2019: 2 design cases, have been in mass production 	<ul style="list-style-type: none"> • Design and mass produce the world's fastest Bitcoin mining 28nm chip for Swedish company; complete the design of next-generation 16nm chip. • Design the chips for a number of Chinese mining equipment & machinery manufacturers.
	Game Machine	<ul style="list-style-type: none"> • Including 28nm 	Design and mass produce the 28nm game

		<ul style="list-style-type: none"> • 2014: 1 design case, has been in mass production • 2016: 1 design case 	machine graphics chip for Japanese big firms.
	Medical Imaging Equipment	<ul style="list-style-type: none"> • Including 130nm/28nm • A total of 3 design cases, have been in mass production 	Design and mass produce the chips for Japan's medical device big firm.
	Security System Equipment	<ul style="list-style-type: none"> • Including 180nm • 2010: 1 design case, has been in mass production • 2012: 1 design case, has been in mass production • 2013: 1 design case, has been in mass production 	Design and mass produce the chips for several security equipment big firms.
	Factory Automation Equipment	<ul style="list-style-type: none"> • Including 130nm • A total of 1 design case, has been in mass production 	Design and mass produce the chips for factory automation equipment big firms.
Others Category	Automobile Electronics Equipment	<ul style="list-style-type: none"> • Including 180nm/16nm • 2011: 1 design case, has been in mass production • 2012: 1 design case, has been in mass production • 2019: 1 design case, has been in mass production 	Design and mass produce the chips for Japan's system big firms.

(1) Success case - the world's fastest supercomputer system chip

Alchip completed the communication network chip used in supercomputers for customers in 2011. This design of ultra high-speed computer system chip achieved one-pass design tapeout and one-pass silicon success. Alchip was responsible for the complete design integration which includes physical, electrical, timing and thermal design of this SoC project. The chip adopted TSMC's 65nm process and contained over 60 million logic gates aiming at 800MHz performance whole chip while consuming over 54 watts of power in 20mm by 17mm die size. Instead of the traditional ring method, the unique two-dimensional array of Area I/O technology was used to narrow the experience area. Finally, Alchip successfully made its output through the flip-chip packaging technology and won the championship of the world's fastest operator thanks to the computing power of its end products. As of now, Alchip has completed a number of supercomputer SoC solutions at 16nmFinFET, the end product's performance broke the world record and became the world's fastest super computer as soon as it released at that time. Alchip has also accomplished 2 design cases among TOP500.

(2) Success cases – tier-one system companies

A. A Company: The Japan's system firm has given its most important product lines to Alchip since 2003, including high-definition digital TV, game machine, digital camera, and video camera.

B. I Company: The Taiwanese I Company has cooperated with Alchip to produce the digital camera chips since 2009. The latest generation of products has been given to Alchip for production.

C. AC Company: One of Top Green 500 HPC supercomputer system firms in Japan has cooperated with Alchip to produce chips.

5.1.4 Long-term and short-term business development plans

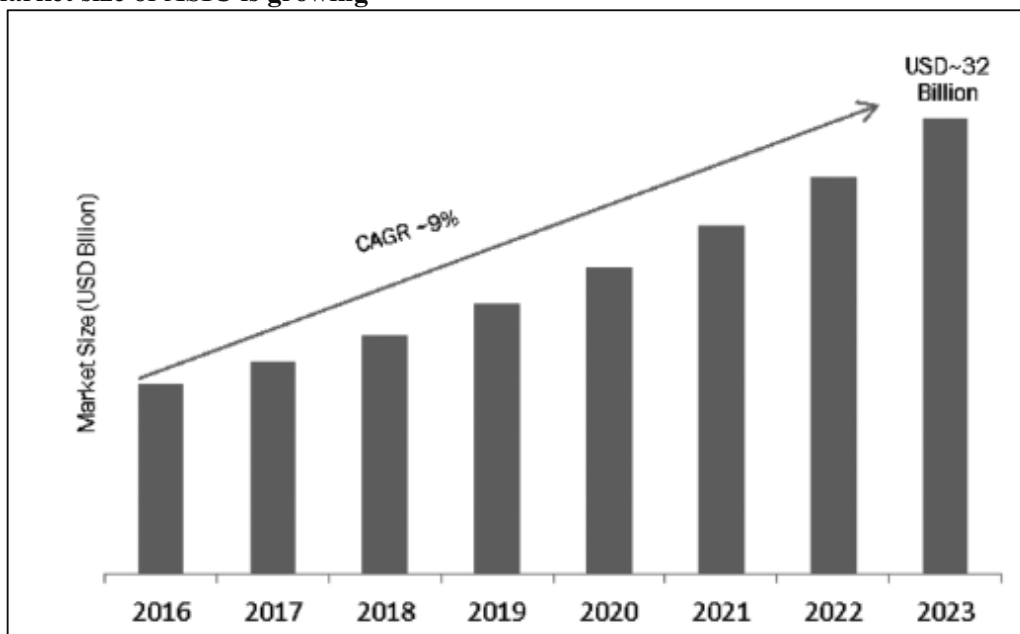
In the future, Alchip will still continue to focus on its core businesses – R&D, design and manufacturing in high-end processing SoC, and work closely with world-class manufacturing suppliers to improve Taiwan’s international status in the chip design industry through leading technologies. The Company’s short- and long-term business development plans are described in three aspects of R&D, business, and production as follows.

Item	Short-term business development plan	Long-term business development plan
R&D	<ol style="list-style-type: none"> 1. Provide service for custom digital/analog circuits. 2. Optimize design procedures and shorten design Turn Around Time (TAT). 3. Strengthen capability and quality of SoC design for advanced process node. 4. Invest in R&D for power saving design technologies. 5. Improve DFT/DFM strategy for better predictability and controllability of mass-production cost. 	<ol style="list-style-type: none"> 1. Expand Silicon Intellectual Property library by investing in R&D of high-end custom digital/analog circuit.. 2. Collaborate with foundries for early deployment of SoC design in advanced process node 3. Continuously standardize design procedure in order to shorten design TAT and maximize resource allocation efficiency. 4. Improve performance and energy saving of silicon intellectual property such as ARM high-end processors. 5. Enhance SoC front-end design service and develop various application platforms. 6. Provide system-level verification service, such as SI/PI/Thermal, to ensure customer’s fast system bring-up.
Business	<ol style="list-style-type: none"> 1. Focus on system customers, and choose products with a high market potential, especially in HPC/AI related products. 2. Introduce the existing products of system customers into the advanced process to reduce costs and power consumption. 3. Increase the system integration such as SoC or SiP. 4. Develop customers through market orientation, find customers with the development potential, and focus on customers of four domains of the Company. 	<ol style="list-style-type: none"> 1. Build service bases for major customers in the world, thoroughly develop long-term partnerships with customers and core technologies, and visibility and market share 2. Strengthen the strategic alliance with silicon intellectual property suppliers and long-term partnerships. 3. Working with customers to develop various application platform architecture, help customers establish cooperative alliances, and increase the competitiveness of system integration e.g. SoC or SiP. 4. Continue to enhance the cooperation between the upstream and downstream firms, and broaden the scope to include market information.
Production	<ol style="list-style-type: none"> 1. Enhance the cooperation among the upstream, midstream, and downstream. 2. Provide customers with high-quality supply chain management to create the added value of the production. 3. Build long-term partnerships with foundries. 	<ol style="list-style-type: none"> 1. Strengthen the link between design and production, continuously reduce production costs, and improve the defect-free rate. 2. Provide customers with higher-quality supply chain management and more professional back-end consulting capability to create added values of production. 3. Build long-term close partnerships with foundries, including verification and R&D in the Silicon Intellectual Property.

5.2 Market and Sales Overview

5.2.1 Market analysis

A. The market size of ASIC is growing

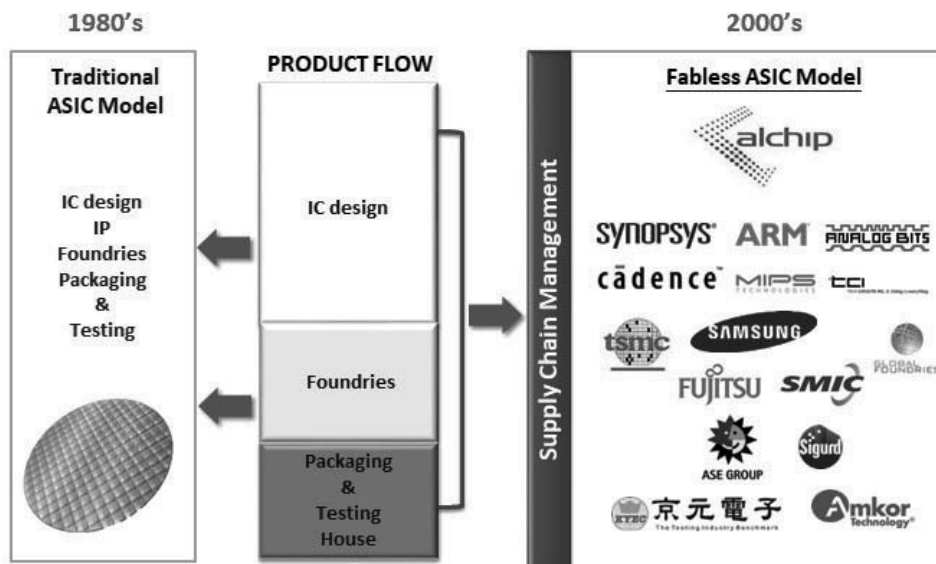


Source: [MRFR Analysis](#), January 2019

Since its invention, semiconductors have been developed for 60 years. Looking at the development of the semiconductor industry after entering the generation of deep submicron, there are three key trends: the business model from system companies' vertical integration to specialization and division of labor nowadays; process technology following Moore's Law developed to date already moving towards 7nm (and more advanced) process node; system products adopting package stacking technology (SiP) and integrated System-on-Chip (SoC) mode to achieve the greatest market competitiveness.

(1) Trend I: The industry with specialization and division of labor

The semiconductor industry was mainly a closed production system vertically integrating the upstream, midstream, and downstream until the early 1980s, and the system company undertakes to do everything by itself. The pure play foundry business model was formally established with the foundation of the first pure-play foundry, TSMC, and UMC in 1987. After 2000, the specialization and division of labor in the semiconductor industry is increasingly apparent except that large IDMs still have IC design and foundries. Today, system companies concentrate on the R&D in core technology and engagement in brand marketing, and give the back-end design and production supply chain management to fabless ASIC companies. The fabless ASIC companies allied with their strategic partners to form the industry with specialization and division of labor.



- (2) Trend II : High-end process takes the place of low-end process
- ASIC design seeks the high-end process to reduce costs, power consumption, and size. In respect of wafer fabrication, as we shift into the generation of submicron and deep submicron, one unit of medium-scaled (5~10M gate) SoC cost millions of dollars. Mask for 90nm cost approximately 0.7 millions of dollars that exceeded one million dollars after entering the 65nm process. Mask for 40nm process cost approximately 2 million dollars and cost more than 5 million dollars for 16nm process. According to global market research institution, TrendForce, the market scale of the global foundries is approximately 65.4 billion dollars in 2019. The global foundry industry is expected to grow by a CAGR of 5.3% from 2019 to 2024, driven by the increasing demand of 5G, artificial intelligence (AI) and high-performance computing (HPC) applications, and the well-prepared technology of advanced process and 3D IC packaging.
- (3) Trend III: The system integration gradually moves to SoC (system design) / SiP (Packaging technology)
- System products are faced with intense market competition. Shorter development time and cost effective design are the primary requirements of customers. ASIC design is not only SIP integration but also a system-level integration. To pursue the high-end process, we have to take the chip packaging and testing technology into account to gain the competitive advantage of cost, power consumption, and volume. In response to the whole new SoC, it may be required to take a lot of time and money, which results in the SiP package stacking technology. Compared with the traditional IC packaging, the SiP package stacking technology can reduce design time, increase packaging density, lower risks, and save system costs. In the future, the SoC will gradually move towards the cross-platform collaboration to make the most competitive integration across platforms through SiP / SoC integration mode.
- (4) Trend IV: System manufacturers will gradually move towards outsourcing ASIC design and production
- Under the pressure from functional diversity and cost competitiveness, major manufacturers of system products with large demand in markets, such as cameras, tablet PCs, smart phones, etc. have to face cost pressures and future competitiveness. Therefore, they begin to think about the adoption of self-developed ASIC strategy in order to gain advantages of differentiation and competitiveness. System manufactures will concentrate more on keeping core firmware in hand and gradually move towards outsourcing ASIC design and production in terms of software technology.

B. Sales by region

Unit:NT\$thousand

Regions of sales	2018		2019	
	Amount	%	Amount	%
Taiwan	211,552	6.13	260,117	6.00
Japan	1,320,636	38.27	758,097	17.50
Mainland China	1,577,129	45.70	2,611,565	60.29
Europe	183,574	5.32	53,608	1.24
United States	45,572	1.32	644,164	14.87
Others	112,215	3.26	4,405	0.1
Total	3,450,678	100.00	4,331,956	100.00

C. Market share

According to financial information bulletins of companies, the total sales of the domestic design service industry was approximately NT\$20.3 billion in 2019. The Company's operating revenue was approximately NT\$4.33 billion, with market share of 21.29% ranked as the third.

D. Demand and Supply Conditions for the Market in the Future, and Market Growth Potential

With applications of SoC more widely and diverse needs of end products, IC manufacturers and IC design companies clearly sense that their design productivity is far less than the process technology advanced. To achieve purposes of faster time to market and lower IC design costs, system manufacturers must work with fabless ASIC companies with the capability to integrate various Silicon Intellectual Property. As a result, the demand for fabless ASIC will grow more and more.

From the perspective of growth in all regions, Asia-Pacific region remains the center of future growth, driven by the growth momentum coming from the huge domestic market in Mainland China. The Company constantly researches and develops the design process and technology of advanced processes (28 nm and below) over a long period of time, makes improvements on the use of general commercial software for R&D design (EDA), and enhances its supplier chain management to make products of customer groups lead the market through abundant design resources and technical support while the Company's operating revenue increasing in 2019.

E. Competitive Niche

(1) High-end process experience:

Currently the technical experience of fabless ASIC companies for the most part still remains in 90nm node and above. The design team of Alchip focuses on the design cases with high complexity (over 20 million gates) for advanced processes (28nm and below), develops and mass produces a series of System on Chip successfully for world-class system companies. It can effectively overcome challenges from electrical closure (including power management, timing convergence, system interface, and signal completeness), Design for Test (DFT), Design for Manufacturing (DFM), or the system-level, and further shorten the design time and enhance the efficiency of chips to help customers reduce costs, increase production efficiency, decrease power consumption, and optimize of chip size.

(2) Customization service:

To satisfy customer needs, the Company provides moderate flexibility and creates customized design for customers. Alchip recognizes its market position in SoC design with high complexity for advanced processes. It always has a full communication and understanding first for any customer's requirement, offers all-round services from design to mass production, and includes Silicon Intellectual Property required by products of customers going on the market for the future in the Company's R&D plan and prepares them in advance to shorten the design time in the future.

(3) Quality Assurance:

Alchip's goal is to develop and provide the highest-quality solutions to customers, achieve the highest standard of excellence, and continue to boost creativity. To help customers seize the market opportunity, the Company introduces the Design for Test (DFT) method in the design stage. The hardware circuit is additionally installed on a chip, which allows the faults and manufacturing defects to be detected when testing the chip, and further the testing cost is reduced and the defect-free rate of chip mass production is improved, making all tasks certain to be completed rapidly and effectively and reducing risks in IC design. Meanwhile, Alchip also implements strict quality policies, continuously reviews and enhances its services in order to complete tasks given by customers in a time-sensitive, highly cost-effective manner and ensure products and quality meeting customers' requirements.

(4) Master the advanced process design technologies:

The Company's core team masters design capabilities of advanced processes, and has quite the understanding of the variability in advanced processes. Risks resulting from the lack of the variability in advanced processes of general commercial EDA software can be properly predicted and prevented. It is more complex for advanced processes systems. In the chip design and packaging process, the system analysis is also taken into consideration to ensure the predictability that customers get chips integrated into systems, such as: Signal Integrity (SI) and Power Integrity (PI). Alchip's advanced process design solutions have also obtained empirical results from more than 200 million units of mass-production chips. After adoption of Alchip's design programs, customers can complete product design goals in the shortest time and gain the cost-effectiveness under high-volume mass production.

(5) Reliability:

High-complexity SoC design faces challenges in reliability, quality, cost, and time for products to market. The Company has completed more than 420 design projects since its establishment in 2003, and obtained the world's and system company's quality certification. Regardless of high-end system chips, high-complexity chips, and advanced-process chips, success has been achieved for all wafer start at the first attempt by far. Alchip considers environment variation factors that may occur at early design stage of circuits to reduce time and costs in re-designs and re-spins, and achieve high defect-free rate. Alchip accomplishes the reliability assurance through careful planning and implementation, concentration on the reliability, pre-sale support, and continuous improvement in the reliability for related products.

(6) Long-term customer relationships and strategic alliance partners:

The Company has long-term relationships with all customers, and pursues shared goals for better, faster results and lower costs. In respect of supply chain management, it also maintains good partnership with upstream and downstream strategic partners, and provides customers with complete solutions and products that are more competitive.

F. Advantages, disadvantages and responsive strategies in the development of perspective

(1) Advantageous factors:

- i. Complete supply chain of Taiwan's semiconductor industry: The semiconductor has division of labor based on specialization and close relationship between upstream and downstream. Taiwan has advanced-process wafer fab, packaging, and testing houses and complete satellite suppliers, which has a comparative advantage in the development of IC design services. Besides, the convenience of location attracts manufacturers around the globe to place orders in Taiwan in view of the first-class international competitiveness.
- ii. Heavy demand for semiconductor products from Taiwan: Taiwan's OEM/ODM business mode has very high production efficiency and economies of scale in sub-contract manufacturing for not only semiconductor but also system products. Therefore, there is a huge demand in Taiwan's domestic market to support orders from foreign manufacturers.

- iii. Support by government policy: The electronics industry has been strongly supported by the government through investments OEM/ODM in the semiconductor sector, and fostering information technology, consumer electronics, and IC manufacturing industries. Thus, talented people and industrial structure are both beneficial for long-term development.
- (2) Disadvantageous factors and responsive measures:
- i. Since engineers with advanced-process experience are very few, talented people are not easy to find and develop. Retaining professional personnel has become increasingly competitive because of the flourishing of IC industry. Companies often have to pay a high price for recruiting outstanding talents. As a result, to enhance employees' cohesion and sense of belonging towards the Company, the Company has to pay higher cost of human resource.

【Responsive Measure】

 - ① The Company develops its own talents over a long period through internal and external professional education and training as well as on-the-job training, and improves employee benefits and reduces turnover rate.
 - ② Adoption of employee stock options to keep talents.
 - ii. As the industry looks promising and capacity requirements are going up, the Company needs to steadily expand its production capacity to improve service quality. Additionally, IDM industry mode is no longer competitive. The market trend for system customers to look for partners is becoming more and more obvious. Currently, the design service industry is limited in size, and requires expanding its scale to gain big orders from world-class system companies.

【Responsive Measure】

 - ① Simplify the development and design process to improve productivity.
 - ② Build the application specific Silicon Intellectual Property platform to shorten the design time and resource input.

5.2.2 Main Product Application and Production Flow

A. Main product application

Alchip's major products are divided into three categories:

- (1) AI/HPC/Communication market: The market for network, storage, and computing devices is growing. To meet higher standards for performance, these devices must use increasingly complex high-efficiency and high-density System on Chips. The Company collaborated with China's large system manufacturing firm to complete multiple 3M, GO TD/LTE mobile communications baseband chips and put them into mass production. It also continued to mass-produce supercomputer networking chips for academic institutions, and the project product was chosen as the world's fastest supercomputer. The characteristics lies in a multitude of customized design with high degree of complexity and difficulty or particularly rigorous process conditions and testing, such as master chips of communications equipment with tens of millions units of logic gates frequently. The complexity and difficulty is found in not only design, but also testing and packaging that will be taken into account consequently.
- (2) Consumer electronics products: including designs for applications such as HDTV, mobile phones, digital cameras/video cameras, entertainment systems, portable media players, tablet PC master chips, and peripheral chips. Among which, mobile communication devices have integrated with features of MP3, camera, GPS, mobile TV, wireless surfing, gaming machine, etc., and they will become a personal finance and identification tool in the future. In the semiconductor sector, the consumer market is the fastest growing segment. In response to the fierce competition in the market, Alchip provides

predicable chip realization time, adopts the applied efficiency circuits with empirical experiences, completes prototype chips and enters mass production as soon as possible so that customers can get maximum returns on their investments.

- (3) Niche market products: including ASIC design in special applications such as surveillance systems, entertainment machines, and medical equipment and instruments.

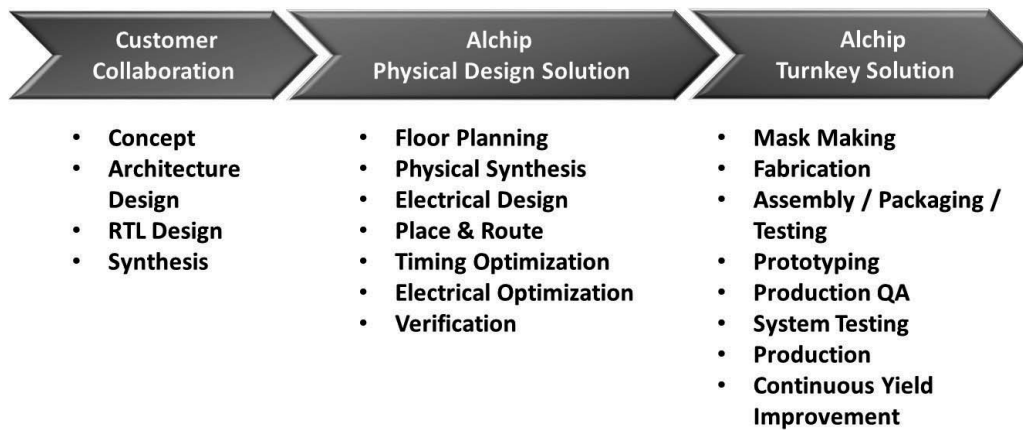


B. Production process of major products:

Chip design is composed of front-end design and back-end design. The front-end design is provided by the system company, and back-end design, production, and manufacturing, on the other hand, are subcontracted to Alchip.

At the front-end design, the concept of a product is decided by the customer. RTL (Register Transform Level) is used to describe functions required by IC and determine the operating speed of the product. Finally, the target database containing all the details (basic functional logic) is established. Through the use of synthesis software, RTL is converted to net list, in which, electronic circuits are converted to logic gates, and the function defined therein is realized through Synthesis Software while the operating clock defined by designer is optimized, and the completed design is given to the fabless ASIC supplier for back-end design.


The back-end design is divided into two phases. The first phase begins with the initialization of the design case and ends in receipt of customer's final net list, which takes about 6 to 8 weeks. The second phase in which engineers use physical design software to convert Net List to the actual layout, and generate the file named GDSII for manufacturing masks (commonly known as tape out). This phase takes about 4 to 6 weeks.



Alchip provides not only the back-end design service, but also a complete turn-key service from design to wafer fabrication, packaging, and testing for customers. In Alchip's service process, the wafer fabrication phase begins after delivery of GDSII file to foundries for manufacturing. The period from delivery of GDSII to completion of chip's finished product testing takes about 8 to 12 weeks. The chip manufacturing process is roughly divided into the following steps: wafer fabrication (wafer fab for short), wafer probe, assembling, initial test and final test. Alchip builds close working relationships with suppliers for overall back-end design and production.

- (1) Silicon Intellectual Property suppliers: Alchip works closely with silicon intellectual Property suppliers and seeks the most appropriate capacity/price ratio. Alchip can provide products of principal IP suppliers around the globe. Customers can adopt their own IP and then combine them flexibly with IP provided by Alchip.
- (2) Foundries: Alchip chooses cooperative firms based on customer's needs. Alchip adopts the open foundries business mode that it does not need to depend on the limited design capability and development of a fixed foundry. The Company keeps good partnerships with most foundries (such as: TSMC, Samsung, SMIC, Global Foundries, etc.). It also cooperates closely with TSMC in R&D at the back-end design for deep-submicron and high-end processing SoC.
- (3) Packaging/testing house: Considering the packaging/testing when manufacturing products, in the early design stage, the manufacturing & production team and design & engineering team of Alchip will work together with customers and packaging/testing houses in the supply chain and ensure that each part is correct in the process of commercialization. In the meantime, the logistics group of Alchip makes chips produce timely and delivers them to customers through sound planning production process, and good interaction with supply chain companies.

The following is a list of individual suppliers in the semiconductor industry chain:

Foundry	
Packaging & Testing House	
SIP Supplier	 <p>(over 30 partners)</p>

5.2.3 Raw Material Supply

Main raw material	Main source	Supply status
Wafer	Taiwan	Good

5.2.4 Major suppliers and customers

A. Major suppliers contributing more than 10% of total purchase amount in years 2019 and 2018

Unit: NT\$ thousand/%

Item	2018				2019			
	Supplier	Amount	Percentage of full-year net purchase (%)	Relationship with the issuer	Supplier	Amount	Percentage of full-year net purchase (%)	Relationship with the issuer
1	TSMC	561,316	84.02	None	TSMC	963,060	100.00	None
2	Others	106,727	15.98	None	-	-	-	-

Explanation: Alchip is a professional IC design company, and its main purchase item is wafer. Alchip pursues quality and ensures delivery time, and has the long-term cooperation and builds stable partnership with wafer foundries.

B. Major customers contributing more than 10% of total sales amount in years 2019 and 2018

Unit: NT\$ thousand/%

Item	2018				2019			
	Customer	Amount	Percentage of full-year net sales (%)	Relationship with the issuer	Customer	Amount	Percentage of full-year net sales (%)	Relationship with the issuer
1	AB Company	499,045	14.46	None	S Company	1,208,388	27.89	None
2	K Compnay	463,834	13.44	None	Y Company	817,391	18.87	None
3	S Comoany	460,434	13.34	None	AB Company	(Note)	(Note)	None
4	YCompany	331,015	9.56	None	K Company	(Note)	(Note)	None

Note: Revenue from the customer for the indicated period was less than 10% of the Company's revenue.

Explanation: The increase in the sales amount of S Company and Y Company was resulting from revenue recognition of the increase of chip production and design service completion, respectively. The decrease in the sales amount of AB Company and K Company was resulting from the decrease in design service and decrease in demand for chip production in 2019, respectively.

5.2.5 Production output in years 2019 and 2018

Unit: thousand; NT\$ thousand

Output	Year	2018		2019	
		Quantity	Value	Quantity	Value
Major Products					
ASIC and Chip production		13,726	1,124,174	8,973	2,077,920
NRE		-	-		
Others		529	118,852	69	2,357
Total		14,255	1,243,026	9,042	2,080,277

Note: Alchip is a professional IC design company, and has no its own wafer fabrication capacity. The capacity of general manufacturing industry is not applicable. NRE refers to IC design services coming into contract. Since contracts for cost input is different to each project, it is not applicable to calculation of quantity and value.

5.2.6 Sales amount in years 2019 and 2018

Unit: NT\$ thousand

Shipments & Sales	Year	2018				2019			
		Domestic sales		Overseas sales		Domestic sales		Overseas sales	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Major Products									
ASIC and Chip production		4,488	211,552	10,445	3,090,507	2,497	260,117	6,852	4,054,136
NRE		-	-	-	30,720	-	-	-	13,372
Others		-	-	470	117,899	-	-	66	4,331
Total		4,488	211,552	10,915	3,239,126	2,497	260,117	6,918	4,071,839

5.3 Information on Employees

The Company's number of employees employed, their average years of service, average age, the percentage of employees at each education level for the two most recent years:

Year		2018	2019	The Current Year up to March 31, 2020
Number of Employees	Supervisor of Managerial Level or Above	102	102	102
	General staff	292	302	300
	Total	394	404	402
Average age		31.9	32.3	32.6
Average years of service		5.4	5.5	5.4
Percentage of Employees at Each Education Level	Ph.D.	1%	1%	1%
	Master	34%	31%	31%
	College	62%	65%	65%
	Senior High School and below (inclusive)	3%	3%	3%

5.4 Expenditure on Environmental Protection

Total losses (including damage awards) and fines for environmental pollution in the most recent year as well as the current year up to the date of the publication of the annual report, and describe the responsive measures (including corrective measures) and possible disbursements to be made in the future (including an estimate of losses, fines, and compensation resulting from any failure to adopt responsive measures. If the loss cannot be reasonably estimated, make a statement to that effect.): None.

5.5 Labor Relations

5.5.1 Describe employee benefit plans, continuing education, training, retirement systems, and the status of their implementation, and labor-management agreements and measures for upholding employees' rights and interests

A. Employee benefit plans

The Group's employee benefit plans are implemented in accordance with relevant laws and regulations where subsidiaries are located, including labor and health insurance, group insurance, pension distribution, and annual physical examination. The subsidiaries of the Group also establish employee welfare committees responsible for planning and handling employees' welfare matters including cash gifts for holidays and festivals, outing and related activities and year-end party.

B. Continuing education and training

To enhance employees' professional capabilities and achieve the company's goals in cultivation of talent, the Company makes annual training programs for employees based on the Company's development strategy and employees' needs, scrupulously implements training, and conducts reviews and auditing on training performance in accordance with ISO Standard for Training Management and Process.

C. Retirement systems and status of their implementation

Alchip's retirement systems are implemented in accordance with Labor Standards Act and Labor Pension Act of the republic of China to provide protection for employees' security.

D. Labor-management agreements and measures for upholding employees' rights and interests

The Group has always valued employees' rights and interests as well as their opinions. We keep labor relations harmonious, and employees may make communications and submit their suggestions on the company's operations through regular labor-management conference. Therefore, no material labor dispute has occurred up to now.

5.5.2 Describe any loss sustained as a result of labor disputes in the most recent year and the current year up to the date of the publication of the annual report, disclose an estimate of losses incurred to date or likely to be incurred in the future, and mitigation measures. If the loss cannot be reasonably estimated, make a statement to that effect

The Group has always maintained harmonious labor relations. There is no loss sustained as a result of labor disputes, and no losses incurred as a result of labor disputes are estimated to be incurred in the future year.

5.6 Material Contracts

Supply and sales contracts, technical cooperation contracts, engineering/construction contracts, long-term loan contracts, and other contracts that would affect shareholders' equity, where said contracts are either still effective as of the date of the publication of annual report, or expired in the most recent year are listed as follows:

5.6.1 Alchip Technologies, Limited, Alchip(Holdco)

Agreement	Counterparty	Start/end Dates of contracts	Major content	Restrictive clauses
Design and production	S Company	Five years from September 15, 2013 (auto-renew for additional 5 years)	Alchip (Holdco) provides product R&D services, manufactures, and sells integrated circuit products to S Company based on the Statement of Work attached with the contract.	None
Design and production	Y Company	Five years from April 1, 2019	Alchip (Holdco) provides product R&D services, manufactures, and sells integrated circuit products to Y Company based on the Statement of Work attached with the contract.	None
Partner	F Company	One year from March 13, 2009 (automatically extended for one year annually)	F Company appointed Alchip (Holdco) as its "Value Chain Aggregator".	None
Software licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco), Alchip (TW), Alchip (JP), Alchip (Wuxi), and Alchip (Shanghai) on October 31, 2019. G Company licensed Alchip (Holdco), Alchip (TW), Alchip (JP), Alchip (Wuxi), and Alchip (Shanghai) the right to use Licensed Products and patented technologies with expiration date on October 30, 2022).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip(Shanghai) on October 24, 2017. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip(Shanghai) for use with expiration date on January 23, 2021).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip(Shanghai) on October 26, 2018. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip(Shanghai) for use with expiration date on December 16, 2021).	None

Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip(Shanghai) on May 6, 2019. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip(Shanghai) for use with expiration date on May 5,2022).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip(Shanghai) on October 28, 2019. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip(Shanghai) for use with expiration date on October 27, 2022).	None
Software licensing	H Company	From June 29, 2006 to the termination by H Company as agreed in the contract	H Company licensed Alchip (Holdco) the right to use Licensed Materials.	None
Technology licensing	H Company	From June 30, 2017 to March 30, 2020	H Company licensed relevant patents on technologies to Alchip (Holdco) for use.	None

5.6.2 Alchip Technologies, Inc.,Alchip(Taiwan)

Agreement	Counterparty	Start/end dates of contracts	Major content	Restrictive clauses
Lease contract	CyberLink Corp.	From August 1, 2019 to July 31, 2024	Lease the property located in “9F., No. 12, Wenhui St., Neihu Dist., Taipei City” and “9F.-1, No. 12, Wenhui St., Neihu Dist., Taipei City” as office space.	None

5.6.3 Alchip Technologies, Limited,TW Branch

Agreement	Counterparty	Start/end dates of contracts	Major content	Restrictive clauses
Lease contract	TAI YUAN TESTILE	From January 1, 2019 to December 31, 2023	Lease the property located in “11F.-1, No. 1, Taiyuan 1st St., Zhubei Vil., Zhubei City, Hsinchu County” as office space.	None

5.6.4 Alchip Technologies, Limited,Alchip(Shanghai)

Agreement	Counterparty	Start/end dates of contracts	Major content	Restrictive clauses
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip (Shanghai) on October 24, 2017. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip (Shanghai) for use with expiration date on January 23, 2021.	None

Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip (Shanghai) on October 26, 2018. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip (Shanghai) for use with expiration date on December 16, 2021.	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip(Shanghai) on May 6, 2019. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip(Shanghai) for use with expiration date on May 5,2022).	None
Technology licensing	G Company	From April 1, 2003 to this day	G Company licensed Alchip (Holdco) the right to use Licensed Products (and it signed an amendment to the contract of software license with Alchip (Holdco) and Alchip(Shanghai) on October 28, 2019. G Company licensed relevant patents on technologies to Alchip (Holdco) and Alchip(Shanghai) for use with expiration date on October 27, 2022).	None
Lease contract	10 Landlords	From July 1, 2019 to June 30, 2022	Lease the property located in “11F, East Building, Greenland Center, No. 596, Middle Longhua Rd., Xuhui District, Shanghai City” as office space.	None

VI. Financial Highlights

6.1 Financial Highlights

6.1.1 Condensed balance sheet and statements of comprehensive income/ statements of income(Consolidated)

A. Balance sheet (Consolidated)

Unit: NT\$ thousand

Item	Year	Financial Summary for The Last Five Years(Note 1)				
		2015	2016	2017	2018	2019
Current assets		2,581,575	2,266,456	2,332,005	2,883,785	4,108,247
Property, Plant and Equipment		444,654	216,976	269,326	316,836	389,422
Intangible assets		143,811	117,058	87,192	146,759	221,553
Other Non-Current assets		744,971	688,160	427,395	370,024	505,844
Total assets		3,915,011	3,288,650	3,115,918	3,717,404	5,225,066
Current liabilities	Before distribution	1,087,814	731,082	358,056	768,574	1,815,666
	After distribution	1,117,493	731,082	422,064	677,889	(Note 2)
Non-current liabilities		-	-	43,417	27,931	107,655
Total liabilities	Before distribution	1,087,814	731,082	401,473	796,505	1,923,321
	After distribution	1,117,493	731,082	465,481	705,820	(Note 2)
Equity attributable to owner of the company		2,827,197	2,557,568	2,714,445	2,920,899	3,301,745
Share capital		615,678	607,028	610,010	597,731	606,129
Capital surplus		1,392,250	1,388,223	1,425,312	1,456,360	1,534,620
Retained earnings	Before distribution	662,507	421,432	730,175	821,922	1,164,749
	After distribution	632,828	421,432	666,167	731,237	(Note 2)
Other equity		156,762	140,885	(51,052)	44,886	(3,753)
Treasury stock		-	-	-	-	-
Non-controlling interest		-	-	-	-	-
Total equity	Before distribution	2,827,197	2,557,568	2,714,445	2,920,899	3,301,745
	After distribution	2,797,518	2,557,568	2,650,437	2,830,214	(Note 2)

Note 1 : Financial information for the year 2015~2019 is audited by CPAs.

Note 2 : Pending on the approval of 2020 shareholders' meeting.

B. Statements of comprehensive income(Consolidated)

Unit: NT\$ thousand

Item	Year	Financial Summary for The Last Five Years (Note)				
		2015	2016	2017	2018	2019
Operating revenues		3,785,741	3,690,977	4,265,643	3,450,678	4,331,956
Gross profit		822,497	487,833	1,201,130	1,291,441	1,611,042
Profit (loss) from operations		140,827	(209,745)	320,051	321,925	432,878
Non-operating income & expenses		27,409	8,432	38,934	12,880	92,405
Profit(loss)before income tax		168,236	(201,313)	358,985	334,805	525,283
Net profit(loss) from operations of continued segments		128,936	(211,396)	308,743	257,357	433,512
Net profit(loss)		128,936	(211,396)	308,743	257,357	433,512
Other comprehensive income(loss) (net of income tax)		46,851	(15,877)	(191,937)	81,936	(48,639)
Total comprehensive income(loss)		175,787	(227,273)	116,806	339,293	384,873
Net income attributable to shareholders of the parent		128,936	(211,396)	308,743	257,357	433,512
Net income attributable to non-controlling interest		-	-	-	-	-
Comprehensive income attributable to Shareholders of the parent		175,787	(227,273)	116,806	339,293	384,873
Comprehensive income attributable to non-controlling interest		-	-	-	-	-
Earnings(loss) per share (NT\$)		2.07	(3.45)	5.08	4.22	7.20

Note : Financial information for the year 2015~2019 is audited by CPAs.

6.1.3 CPA opinions from 2015to 2019

Year	CPA	Accounting Firm	Auditor's Opinion
2015	Yi-Wen Wang, S.C. Huang	Deloitte & Touche	Unqualified opinion
2016	Cheng-Ming Lee, S.C. Huang	Deloitte & Touche	Unqualified opinion
2017	Cheng-Ming Lee, S.C. Huang	Deloitte & Touche	Unqualified opinion
2018	Yi-Wen Wang, Cheng-Ming Lee	Deloitte & Touche	Unqualified opinion
2019	Yi-Wen Wang, Cheng-Ming Lee	Deloitte & Touche	Unqualified opinion

6.2 Financial Analysis

A. Consolidated financial analysis from 2015 to 2019

Item		Financial Analysis for the Last Five Years(Note1)				
		2015	2016	2017	2018	2019
Financial structure (%)	Debt ratio	27.79	22.23	12.88	21.43	36.81
	Ratio of long-term capital to property, plant and equipment	635.82	1,178.73	1,023.99	930.71	875.50
Liquidity (%)	Current ratio	237.32	310.01	651.30	375.21	226.27
	Quick ratio	198.84	273.68	603.09	322.36	189.67
	Interest earned ratio (times)	29.45	(58.83)	198.79	376.76	117.32
Operating performance	Accounts receivable turnover (times)	5.06	4.00	6.00	6.26	5.37
	Days sales outstanding	72	91	61	58	68
	Inventory turnover (times)	11.11	12.20	17.09	9.20	5.49
	Accounts payable turnover (times)	25.48	16.40	18.43	23.67	9.88
	Average inventory turnover days	33	30	21	40	66
	Property, plant and equipment turnover (times)	9.43	11.16	17.54	11.77	12.27
	Total assets turnover (times)	1.05	1.02	1.33	1.01	0.97
Profitability	Return on total assets (%)	3.70	(5.79)	9.69	7.55	9.78
	Return on equity (%)	4.60	(7.85)	11.71	9.13	13.93
	Pre-tax income to paid-in capital (%)	27.33	(33.16)	58.85	56.01	86.66
	Net margin(%)	3.41	(5.73)	7.24	7.46	10.01
	Basic earnings per share (NT\$)	2.07	(3.45)	5.08	4.22	7.20
Cash flow	Cash flow ratio (%)	56.75	73.22	347.00	132.66	91.67
	Cash flow adequacy ratio (%)	97.75	99.43	118.46	112.50	122.29
	Cash reinvestment ratio (%)	15.13	12.57	27.04	16.64	26.07
Leverage	Operating leverage	14.86	(6.87)	6.44	7.55	6.53
	Financial leverage	1.04	0.98	1.01	1.00	1.01

Analysis of deviation of 2019 vs. 2018 over 20%

- (1) Debt Ratio : Increased by 71.77% in 2019, mainly due to the increase in accounts payable and receive in advance from customer.
- (2) Current Ratio, Quick Ratio : Decreased by 39.17% and 41.16%, respectively, mainly resulting from the increase in accounts payable and receive in advance from customer in 2019 .
- (3) Interest Coverage Ratio :Dncreased by 68.86%, due to apply IFRS 16 “Lease” and increase in lease liabilities increase , resulting increase in interest expenses in 2019.
- (4) Inventory Turnover Rate, Average inventory turnover days : Decreased by 40.33% and increased 65% , respectively, mainly resulting from the increase in inventory in 2019.
- (5) Accounts Payable Turnover Rate : Decreased by 58.26%, mainly resulting from the increase in average accounts payable in 2019.
- (6) Return on Assets, Return on Equity : Increased by 29.54% and 52.57% ,respectively, mainly resulting from the increase of net profit in 2019.
- (7) Pre-tax income to paid-in capital, Net margin, EPS: Increased by 54.72%,34.18% and 70.2%,respectively,mainly resulting from the increase of net profit in 2019.
- (8) Cash Flow Ratio : Decreased by 30.9%, resulting from the increase in accounts payable and receive in advance from customer and increase in current liabilities in 2019.

- (9) Cash reinvestment ratio : Increased by 56.67%, resulting from the increase in net profit, increase in cash generated from operating activities in 2019.
- (10) Operating leverage: Decreased by 13.51%, resulting from the increase in revenue in 2019.

Note 1: Financial information for the year 2015~2019 is audited by CPAs.

Note 2: Financial analysis equations:

1. Financial structure
 - (1) Ratio of liabilities to assets= Total liabilities/Total assets
 - (2) Ratio of long-term assets to Property, plant and equipment=(total equity+non-current liabilities)/ property, plant and equipment, net
2. Solvency
 - (1) Current ratio=Current assets/Current liabilities
 - (2) Quick ratio=(Current assets-inventory-prepaid expense)/Current liabilities
 - (3) Multiple of interest protection=income tax and interest expenses net income before income tax/interest expenses in the current period
3. Operating ability
 - (1) Account receivable turnover(times)=Net sales/Average accounts receivable and notes receivable(net)
 - (2) Days sales in account receivable=365/Account receivable turnover(times)
 - (3) Inventory turnover= Cost of goods sold/Average inventory
 - (4) Payables (including accounts payable and notes payable resulting from operation) turnover = net sales / balance (gross) of average accounts payable (including accounts payable and notes payable resulting from operation)
 - (5) Average days in sales=365/Inventory turnover
 - (6) Property, plant and equipment turnover(times)=Net sales/ net sales/average property, plant and equipment, net
 - (7) Total assets turnover=Net sales/Average assets
4. Profitability
 - (1) Ratio of return on total assets=[net income+interest expense(1-tax rate)/Average assets]
 - (2) Ratio of equity= Net income/Average total Equity
 - (3) Profit ratio=New income/Net sales
 - (4) Earnings per share=(Net income- preferred stock dividend)/Weighted average stock issued (Note 4)
5. Cash flow
 - (1) Cash flow ratio=Net cash flow from operating activity/Current liabilities
 - (2) Cash flow adequacy ratio=Net cash flow from operating activities in five years/(Capital expenditure+inventory increase+cash dividend) in five years
 - (3) Cash reinvestment ratio=(Net cash flow from operating activity –cash dividend)/ gross of property, plant and equipment+long-term investment+other non-current assets+working capital)(Note 5)
6. Leverage
 - (1) Operation leverage=(Net operating income-operating cost and expense)/Operating income (Note 6)
 - (2) Financial ratio= Operating income/(Operating income-Interest expense)

Note 3: When the above formula for calculation of earnings per share is used during measurement, give special attention to the following matters:

1. Measurement should be based on the weighted average number of common shares, not the number of issued shares at year end.
2. In any case where there is a cash capital increase or treasury stock transaction, the period of time in circulation shall be considered in calculating the weighted average number of shares.
3. In the case of capital increase out of earnings or capital surplus, the calculation of earnings per share for the past year and the half-year shall be retrospectively adjusted based on the capital increase ratio, without the need to consider the issuance period for the capital increase.
4. If the preferred shares are non-convertible cumulative preferred shares, the dividend of the current year (whether issued or not) shall be subtracted from the net profit after tax, or added to the net loss after tax. In the case of non-cumulative preferred shares, if there is net profit after tax, dividend on preferred shares shall be subtracted from the net profit after tax; if there is loss, then no adjustment need be made.

Note 4: Give special attention to the following matters when carrying out cash flow analysis:

1. Net cash flow from operating activities means net cash in-flows from operating activities listed in the statement of cash flows.
2. Capital expenditures means the amounts of cash out-flows for annual capital investment.
3. Inventory increase will only be entered when the ending balance is larger than the beginning balance. An inventory decrease at year end will be deemed zero for calculation.
4. Cash dividend includes cash dividends from both common shares and preferred shares.

5. Gross fixed assets value means the total value of fixed assets prior to the subtraction of accumulated depreciation.

Note 5: Issuers shall separate operating costs and operating expenses by their nature into fixed and variable categories. When estimations or subjective judgments are involved, give special attention to their reasonableness and to maintaining consistency.

Note 6: In the case of a company whose shares have no par value or have a par value other than NT\$10, for the calculation of the above-mentioned paid-in capital ratio, the ratio of equity attributable to owners of the parent as stated in the balance sheet shall be substituted.

6.3 Audit Committee's Report for the Most Recent Year

Alchip Technologies, Limited AUDIT COMMITTEE'S REVIEW REPORT

To: Shareholders' Annual General Meeting for Year 2020, Alchip Technologies, Limited

The Board of Directors has prepared and submitted to the undersigned, Audit Committee of Alchip Technologies, Limited 2019 Business Report, Consolidated Financial Statements and Dividend Distribution proposal. The Consolidated Financial Statements have been duly audited by Certified Public Accountants Janice Wang and Jamie Lee of Deloitte & Touche. The above Business Report, Consolidated Financial Statements and Dividend Distribution proposal have been examined and determined to be correct and accurate by the undersigned. This Report is duly submitted in accordance with Article 14-4 of Securities and Exchange Law and Article 219 of the Company Law.

The Audit Committee, Chairman:

Mr. Mao-Wei Hung



6.4 Consolidated Financial Statement for the most recent year, including an auditor's report prepared by a CPA, and 2-year comparative balance sheet, statement of comprehensive income, statement of changes in equity, cash flow chart, and any related footnotes or attached appendices

Please refer to pages 132 to 196.

6.5 A Parent Company Only Financial Statement for the Most Recent Year, Certified by a CPA, but not Including the Statements of Major Accounting Items

Not applicable.

6.6 Financial Difficulties Encountered By the Company and the Related Party in the Most Recent Year and Up to the Date of the Annual Report

None.

VII. Review of Financial Status, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

A. Comparability and analysis on financial status

Unit: NT\$ thousand; %

Item	Year	2018	2019	Difference	
				Amount	%
Current Assets		2,883,785	4,108,247	1,224,462	42.46
Property, Plant and Equipment		316,836	389,422	72,586	22.91
Intangible Assets		146,759	221,553	74,794	50.96
Other Non-Current Assets		370,024	505,844	135,820	36.71
Total Assets		3,717,404	5,225,066	1,507,662	40.56
Current Liabilities		768,574	1,815,666	1,047,092	136.24
Non-Current Liabilities		27,931	107,655	79,724	285.43
Other Liabilities		-	-	-	-
Total Liabilities		796,505	1,923,321	1,126,816	141.47
Share Capital		597,731	606,129	8,398	1.40
Capital Surplus		1,456,360	1,534,620	78,260	5.37
Retained Earnings		821,922	1,164,749	342,827	41.71
Other Equity		44,886	(3,753)	(48,639)	(108.41)
Total Equity		2,920,899	3,301,745	380,846	13.04

1. Analysis of Deviation over 10% and the amount of change reaches 1% of total assets for the current year
- (1) Current Assets : Resulting from increase in cash and cash equivalents in 2019.
 - (2) Property, plant and equipment : Resulting from the increase in purchase of machinery equipment in 2019.
 - (3) Intangible Assets : Resulting from the increase in purchase of intellectual property in 2019.
 - (4) Other Non-Current Assets : Due to apply IFRS 16 “Lease” and resulting increase in Right -of-use Asset in 2019.
 - (5) Current liabilities : Resulting from the increase in accounts payable and receive in advance from customer in 2019.
 - (6) Non-Current liabilities : Due to apply IFRS 16 “Lease” and resulting increase in lease liabilities in 2019.
 - (7) Capital Surplus: Resulting from increase in employee option expenses in 2019.
 - (8) Retained Earnings : Resulting from the increase in net profit in 2019.
 - (9) Other Equity : Resulting from the changes of Exchange differences arising on translation to the presentation currency.
 - (10) Total Equity : Resulting from increase in other equity in 2019.
2. The above deviations had no major impact on Alchip’s financial position.

7.2 Analysis of Financial Performance

A. Comparability and analysis on business performance

Unit: NT\$ thousand;%

Item	Year	2018	2019	Difference	
				Amount	%
Operating revenues		3,450,678	4,331,956	881,278	25.54
Operating costs		2,159,237	2,720,914	561,677	26.01
Gross profit		1,291,441	1,611,042	319,601	24.75
Operating expenses		969,516	1,178,164	208,648	21.52
Profit (loss) from operations		321,925	432,878	110,953	34.47
Non-operating income and expenses		12,880	92,405	79,525	617.43
Profit(loss) before income tax		334,805	525,283	190,478	56.89
Income tax expense		77,448	91,771	14,323	18.49
Net profit (loss)		257,357	433,512	176,155	68.45
Other comprehensive income(loss)		81,936	(48,639)	(130,575)	(159.36)
Total comprehensive income(loss) for the year		339,293	384,873	45,580	13.43
<p>1. Analysis of Deviation:(over 10% and the amount of change reaches 1% of total assets for the current year.)</p> <p>(1) Operating revenue : Resulting from the increase in the revenue of chip production in 2019.</p> <p>(2) Operating costs : Resulting from the increase in chip production business as well as increase in production cost in 2019.</p> <p>(3) Operating expenses : Due to the increase in pay raise,resulting increase in salay expenses in 2019.</p> <p>(4) Non-operating income and expenses : Resulting from the decrease in expected credit losses from bond investment in and increase in obtain China government subsidy 2019.</p> <p>(5) Net profit(loss) : Resulting from the increase in operating revenues and Non-operating income in 2019.</p> <p>(6) Other comprehensive income(loss) : Resulting from exchange differences arising on translation to the presentation currency.</p> <p>2. The above deviations had no major impact on Alchip's financial position.</p>					

7.3 Analysis of Cash Flow

7.3.1 Cash flow analysis for the most recent year

Unit: NT\$ thousand;%

Item \ Year	2018	2019	Increase/Decrease	
			Amount	%
Operating activities	1,019,620	1,664,379	644,759	63.24
Investing activities	(1,258,449)	(294,549)	(963,900)	(76.59)
Financing activities	(223,946)	(76,446)	(147,500)	(65.86)

Analysis of changes:

- (1) Operating activities : A increase of NT\$644,759 thousand in cash generated from operating activities is resulting from the increase in net profit and receive in advance from customers in 2019.
- (2) Investing activities : A decrease of NT\$963,900 thousand in cash used in investing activities is resulting from the decrease in amount of time deposit in 2019.
- (3) Financing activities : A decrease of NT\$147,500 thousand in cash used in financing activities is resulting from none of executing share buyback in 2019.

7.3.2 Cash flow analysis for the coming year (2020) and remedy for cash deficit and liquidity analysis

The Company has adequate own funds and it shows that cash is provided by operating activities, which should be able to response to cash used in investing activities and financing activities. It is unlikely that insufficient liquidity will be a problem.

7.4 Major Capital Expenditure for the Most Recent Year and its Effect on Finance and Business operations of the Company

None.

7.5 Investment Policy for the Most Recent Year, Main Reasons for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

7.5.1 Investment policy of the Company

The company's current policy is to invest in targets associated with its basic businesses mainly and not invest in other industries. It is conducted by the relevant operating department in compliance with the "Investment Cycle" internal control system and "Guideline for Acquisition and Disposal of Assets". The above regulations or procedures have been discussed and resolved by the Board of Directors or shareholders' meeting.

7.5.2 Main reasons for profits or losses generated from investment for the most recent year

Unit:NT\$thousand

Item	Profit (Loss) in 2019	Investment Policy	Reasons for the Profits/Losses	Improvement Plan
Alchip (HK)	101,346	Invest in subsidiaries in China	Recognized investment loss under equity method.	Not applicable
Alchip (US)	(1,258)	A sales office for the U.S. market	Maintained a stable operating status	Not applicable
Alchip (JP)	(6,644)	An office to develop Japan market	Maintained a stable operating status	Not applicable
Alchip (TW)	(18,098)	Provide ASIC and SoC services	Maintained a stable operating status	Not applicable
Alchip BVI	16,450	General investment	Recognized investment profit from bond investment	Not applicable
Alchip (SH)	1,045	An office to develop the China market, and provide support for sales and R&D.	Maintained a stable operating status	Not applicable
Alchip (Wuxi)	29,109	Provide R&D support	Maintained a stable operating status	Not applicable
Alchip (Hefei)	46,019	Provide R&D support	Maintained a stable operating status	Not applicable
Alchip (Jinan)	25,269	Provide R&D support	Maintained a stable operating status	Not applicable

7.6 Analysis of Risk Management

Analyze and assess the following circumstances for the most recent year and up to the date of publication of the annual report:

7.6.1 Effects of changes in interest rates, foreign exchange rates and inflation on the Company's finance, and future countermeasures

A. Interest rate

The Company's interest expenses was NT\$4,516 thousand in 2019, accounted for 0.104% of annual operating income. Therefore, changes in future interest rates have no material impact on the Company's operation and profit.

B. Foreign exchange rates

The Group has the U.S. Dollar and Japanese Yen as its functional currency, as the Group's sales and purchases were mainly settled in U.S. Dollar. It also holds other currencies to meet subsidiaries' working capital requirements. The Company's foreign exchange (losses) gains were NT\$ 2,479 thousand and NT\$(3,694) thousand in 2019 and 2018, accounted for 0.06% and 0.11% of annual operating income, respectively, which have little impact on the Company's operations and profits.

The Group currently has no material risk of exchange rate fluctuations. However, it is anticipated that Cayman Holdings Company applying for listing on the Taiwan Stock Exchange may probably pay NTD dividends to domestic investors, or acquire NTD funding from domestic fundraising that will be required to convert it to USD for use in the future, the risk of changes in USD to NTD exchange rates in which may be incurred. Response measures will be possibly adopted by the financial department of the Company as follows:

- (1) Financial personnel maintain appropriate foreign exchange positions at the right time based on future foreign exchange rate trends required for operations of the Group's subsidiaries, and reduce the impact of exchange rate fluctuation on the listing company's profit ability.
- (2) Keep close contact with main banks and monitor changes in the foreign exchange market to provide relevant heads of divisions and branches with a full grasp of the trend in exchange rate fluctuation to make timely adjustments in response to contingent circumstances of change in the currency of collection and payment.
- (3) Adopt the natural write-off principle (namely, the whole overseas and domestic sales are quoted in Dollars) to external currency risks, and apply methods such as forward exchange agreements and taking foreign currency debts at the right as needed to reduce the impact of exchange rate fluctuation on the company's profit or loss.

C. Inflation/deflation

Prices of raw materials required by the Company remain stable. The Company's future profit or loss is not much affected by the short-term inflation.

7.6.2 Policies, main causes of gain or loss and future countermeasures with respect to high-risk, high-leveraged investments, lending or endorsement guarantees, and derivatives transactions

The Company remains true to its principle of stable operation on the prerequisite of financial soundness for the development, and has not engaged in any high-risk, high-leveraged investments, or derivatives transactions for the most recent year. Any lending or endorsement guarantees will be conducted in accordance with relevant requirements prescribed in the Company's "Guideline for Acquisition and Disposal of Assets", "The Guideline for Loaning Funds to Others", and "The Guideline For Endorsement and Guaranty". No loss has occurred by now.

7.6.3 Future research & development projects and corresponding budget

In response to future growth, the Company will continuously invest R&D resources in development of high-end System on Chip (SoC) for advanced processes (16, 12 and 7nm) and R&D in design for customized circuit Silicon Intellectual Property (IP). Major R&D items include: Low Power Design Flow, Clocking Optimization technique, Signal Integrity management technology, design and development of customized circuit Silicon Intellectual Property, such as design and development of high-speed Mobile Industry Processor Interface (MIPI) circuit, performance enhancement of high-end microprocessor and peripheral Silicon Intellectual Property, high-end multi-chip packaging design technology, and so on.

In 2019 and 2018, the Company invested NT\$685,741 thousand and NT\$620.393 thousand in R&D, respectively, both reached hundred million NT dollars. It will continue to invest R&D resources in the future depending on the product development plan. However, if the Company does not continue to invest R&D in the future, products development and relevant R&D plans will be limited. Moreover the Company may be unable to meet customer needs or market trends and then even will loss orders. As a result, it will have a material adverse effect on the company's operations.

7.6.4 Effect of major foreign and domestic policy and regulatory changes on the company's finance and business operations, and countermeasures

The country of registration place of the Company is Cayman Island. The Cayman government issued International Tax Co-Operation(Economic Substance) Law on December 27,2018, effective on January 1, 2019, and announced its guidance on February 22, 2019. The Economic Substance Law has material impact

on the Company's operation. The Company has consulted with consultancy to come up with responsive measures and continuously track the changes of the laws and regulations to formulate policies to counteract the effects. The major places of operation of the Company are Taiwan and China with businesses performed in accordance with relevant laws and regulations of competent authorities at major places of operation.

7.6.5 Effect of technological and industry changes on the Company's finance and business operations, and countermeasures

The Company has always emphasized the improvement of R&D capabilities. Currently the chips designed and produced by it are mostly products in 28nm and below processes. No material adverse effect of technological and industry changes on the company's finance and business operations in medium- and long-term is expected. The Company reviews and recognizes IT security risk topic every year, based on the severity and the possibility of risk occurs to assess the risks. If the result of risk assessment is "High Risk", the corresponding of risk control will be performed. There is no High Risk of IT security risk at this current assessment.

7.6.6 The impact of changes in corporate image on corporate risk management, and the Company's countermeasures

None.

7.6.7 Expected benefits and potential risks of mergers and acquisitions, and countermeasures

Not applicable.

7.6.8 Expected benefitsexpected benefits and possible risks associated with plant expansion

Not applicable.

7.6.9 Risks from centralized purchasing or selling, and countermeasures

A. Concentration of purchasing

The Company's main raw material is wafer, and 90% of which are purchased from Taiwan Semiconductor Manufacturing Company Limited (hereinafter referred to as "TSMC"). There has indeed been a concentration phenomenon in purchasing operations. Since the Company does not sign a long-term supply contract with the wafer foundry, once the wafer foundry does not give adequate support capacity, risks of shortage or interruptions may occur in the Company. However, the Company develops relationships of strategic alliance and business bond with suppliers for wafer capacity, and provides timely the latest application trends in products on the market and estimated sales of products in order for wafer foundries to support the capacity requirements. Meanwhile, it obtains TSMC's capacity plan for more than half a year to meet the demand for material preparation of production. In addition, the Company has built the second source of supply to increase the flexibility of source of supply and avoid any circumstance such as shortage or interruptions of supply.

B. Concentration of Selling

The top sales customers of the Company were the customer of S Company and Y Comapny, with proportion of 27.89% and 18.87%, respectively, there is no concentration selling issue. The Company constantly endeavored to develop new customers and diversify customer base in the past year. The benefit thereof will be revealed in 2020.

7.6.10 Impact and risk associated with large share transfers or changes in shareholdings of Directors, or shareholders who hold more than 10% of the Company's shares, and countermeasures

There is no significant impact and risk on share transfers or changes in shareholdings of directors, supervisors, or shareholders who hold more than 10% of the Company's shares up to the date of publication of the annual report.

7.6.11 Impact and risk associated with changes in management rights, and countermeasures

No such case during the most recent year and the current year up to the date of publication of the annual report.

7.6.12 Litigation or non-litigation matters

If the outcome of a concluded or pending litigious, non-litigious or administrative litigation event involving the company, director, general manager, de facto responsible person major shareholders holding more than 10% equity interest, or subsidiary of the company might have material impact on shareholders' equity or the prices of the company's securities, disclose the facts of dispute, amount of claim, lawsuit start date, main parties concerned and current status as of the date of the publication of annual report.

- A. For litigious or non-litigious proceedings or administrative disputes involving the company with respect to which a judgment has become final and unappealable in the most recent two years or in the current year up to the date of the publication of the annual report, and for any such matter still pending. If the outcome could materially impact shareholders' equity or the prices of the company's securities, the annual report shall list the facts of the dispute, amount of money at stake in the dispute, the date of commencement of proceedings, the main parties to the dispute, and current status of the dispute's handling: None.**
- B. For litigious or non-litigious proceedings or administrative disputes involving a company director, the general manager, a de facto responsible person, a 10 percent or greater major shareholder, or a controlled company, if a judgment has become final and unappealable in the most recent two years and the current year up to the date of the publication of the annual report, or if such a matter is still pending, if the outcome could materially impact shareholders' equity or the prices of the company's securities, the annual report shall list the facts of the dispute, amount of money at stake in the dispute, the date of commencement of proceedings, the main parties to the dispute, and current status of the dispute's handling: None.**
- C. Where any of the situations set out under Article 157 of the Securities and Exchange Act has occurred with respect to a company director, managerial officer, or 10 percent or greater major shareholder within the preceding two years, or in the current year up to the date of publication of the annual report, the prospectus shall indicate that fact and describe the current status of the company's handling of the matter: None.**

7.6.13 Other Material Risks

None.

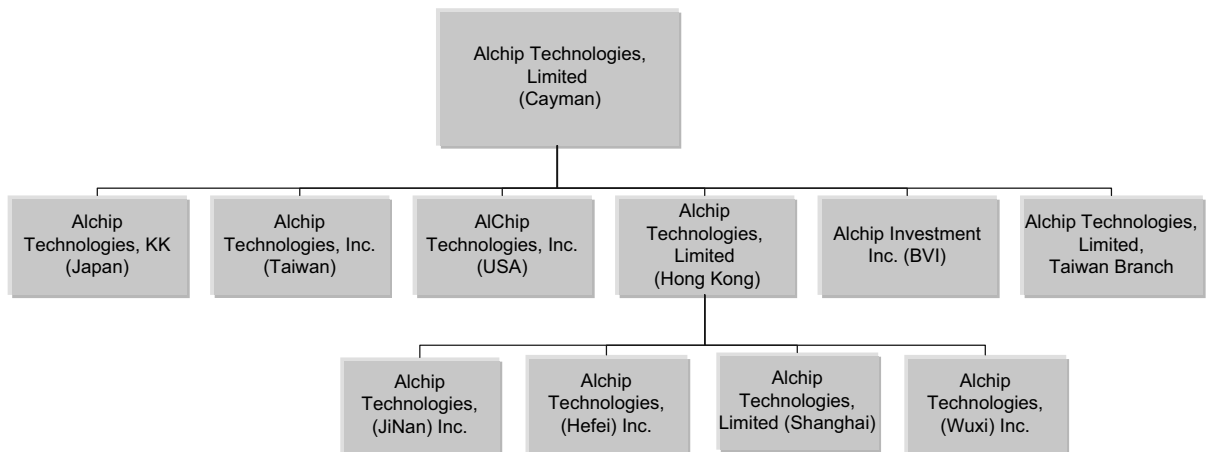
7.7 Other Material Matters

None.

VIII. Special Disclosure

8.1 Information of Subsidiaries

8.1.1 Subsidiaries chart



8.1.2 Profiles of subsidiaries

December 31, 2019; Unit: NT\$thousand

Name	Principal Businesses	Date of Incorporation	Paid-in Capital	Purpose of the Investment	Shareholding %	Method of Accounting Treatment
Alchip HK	General investment	2002	520,687 (Note2)	Invest in subsidiaries in China	100%	Equity Method
Alchip US	ASIC and SoC sales	2003	114,922	A sales office for the U.S. market	100%	Equity Method
Alchip Japan	ASIC and SoC sales	2004	62,587	An office to develop the Japan market,	100%	Equity Method
Alchip Taiwan	Provide ASIC and SoC services	2005	100	Provide ASIC and SoC services	100%	Equity Method
Alchip Shanghai	Research, develop, and design ASIC and SoC, and provide relevant services and sales	2002	383,744	An office to develop the China market, and provide support for sales and R&D	100%	Equity Method
Alchip Wuxi	Research, develop, and design ASIC and SoC, and provide relevant services	2012	59,960	Provide R&D support	100%	Equity Method
Alchip BVI	General investment	2015	473,317 (Note1)	General investment	100%	Equity Method
Alchip Hefei	Research, develop, and design ASIC and SoC, and provide relevant services	2016	14,990	Provide R&D support	100%	Equity Method
Alchip Jinan	Research, develop, and design ASIC and SoC, and provide relevant services	2018	23,504	Provide R&D support	100%	Equity Method

Note1 : The amount of NT\$471,735 thousand (US\$15,050 thousand) has been remitted. However, the procedure of capital-increase has not been completed.

Note2 : The amount of NT\$24,288 thousand (US\$820 thousand) has been remitted. However, the procedure of capital-increase has not been completed.

8.1.3 For companies presumed to have a relationship of control and subordination and information on their shareholders in common

None.

8.1.4 Industries covered by the business operated by the subsidiaries overall

The Company's affiliates all engage in professional Application Specific IC (ASIC) and System-on-Chip (SoC) design, manufacturing and production.

8.1.5 Rosters of Directors, Supervisors, and Presidents of Alchip's subsidiaries

April 13, 2020

Name of Affiliated Enterprise	Title	Name or Representative	Shareholding	
			Number of Shares	%
Alchip Taiwan	Chairman	Kinying Kwan	Alchip Technologies (Cayman) holds 10,000 shares	100%
	CEO	Johnny Shyang-Lin Shen		
Alchip Japan	Director	Kinying Kwan	Alchip Technologies (Cayman) holds 2,000 shares	100%
	Chairman	Junichiro Hosaka		
	GM	Junichiro Hosaka		
	Director	Junichiro Hosaka		
	Director	Kozo Fujita		
Alchip US	Director	Kinying Kwan	Alchip Technologies (Cayman) holds 391,000,000 shares	100%
	GM	Hiroyuki Nagashima		
Alchip HK	Chairman	Kinying Kwan	Alchip Technologies (Cayman) holds 12,230,170,100 shares	100%
	Director	Kinying Kwan		
Alchip Shanghai	Chairman	Andy Lin	Alchip Technologies (Cayman) has a capital contribution of US\$12,800 thousand	100%
	GM	Andy Lin		
Alchip Wuxi	Chairman	Andy Lin	Alchip Technologies (Cayman) has a capital contribution of US\$2,000 thousand	100%
	GM	Andy Lin		
	Director	Daniel Wang		
	Supervisor	Leo Cheng		
		Johnny Shyang- Lin Shen		
Alchip BVI	Director	Daniel Wang	Alchip Technologies (Cayman) holds 50,000 shares	100%
	Director	Nancy Chan		
Alchip Hefei	Chairman	Andy Lin	Alchip Technologies (Cayman) has a capital contribution of US\$500 thousand	100%
	GM	Andy Lin		
	Director	Daniel Wang		
	Supervisor	Leo Cheng Johnny Shyang- Lin Shen		
Alchip Jinan	Chairman	Andy Lin	Alchip Technologies (Cayman) has a capital contribution of US\$784 thousand	100%
	GM	Andy Lin		
	Director	Daniel Wang		
	Supervisor	Leo Cheng		
		Johnny Shyang- Lin Shen		

8.1.6 Operation highlights of Alchip subsidiaries

December 31, 2019; Unit: NT\$ thousand

Company	Total Assets	Total Liabilities	Total Equity	Revenue	Operating Profit(Loss)	Net Profit(Loss)	EPS (NT\$Dollar)
Alchip Taiwan	602,805	33,409	569,396	-	(31,581)	(18,098)	-
Alchip Japan	235,112	177,101	58,011	438,937	(3,313)	(6,644)	-
Alchip US	28,373	7,586	20,787	15,659	(1,258)	(1,258)	-
Alchip Shanghai	495,532	112,431	383,101	340,539	8,457	1,045	-
Alchip Wuxi	149,897	32,491	117,406	178,980	30,824	29,109	-
Alchip HK	589,319	468	588,851	-	(106)	101,346	-
Alchip BVI	544,812	15,550	529,262	-	117	16,450	-
Alchip Hefei	119,328	73,918	45,410	142,498	1,148	46,019	-
Alchip Jinan	65,940	26,604	39,336	90,572	24,928	25,269	-

8.1.7 Consolidated financial statements of subsidiaries

Not applicable.

8.2 Private Placement Securities During the Current Year up to the Date of Publication of the Annual Report

None.

8.3 Holding or Disposal of Shares in the Company by Alchip's Subsidiaries During the Current Year up to the Date of Publication of the Annual Report

None.

8.4 Other Necessary Supplements

None.

8.5 Major Difference Between The Company's Articles of Association and the Regulations on the Protection of Shareholders' Equity of Taiwan

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>I. Formation and change of equity capital of a company</p> <p>1. A company shall not cancel its shares, unless a resolution on capital reduction has been adopted by its shareholders' meeting; and capital reduction shall be effected based on the percentage of shareholding of the shareholders pro rata.</p> <p>2. A company reducing its capital may return share prices (or the capital stock) to shareholders by properties other than cash; the returned property and the amount of such substitutive capital contribution shall require a prior approval of the shareholders' meeting and obtain consents from the shareholders who receive such property.</p> <p>3. The Board of Directors shall first have the value of such property and the amount of such substitutive capital contribution set forth in the preceding Paragraph audited and certified by a Certified Public Accountant of the Republic of China before the shareholders' meeting.</p>	<p>Article 168 of the Company Act</p>	<p>1. The Company may, pursuant to Article 14 of the Company Law of Cayman Islands, reduce its capital previously issued only after a Special Resolution adopted by the shareholders' meeting and confirmed by the court of the Cayman Islands.</p> <p>2. Except as required by Article 14 of the Company Law of Cayman Islands, the Company's capital previously issued can be cancelled only when they are purchased, returned, or redeemed by the Company in accordance with Article 37 or Article 37B of the Company Law of Cayman Islands.</p> <p>3. Subject to Article 37 of the Company Law of Cayman Islands, the Company may purchase its own shares on such terms and in such manners as prescribed in the company's Articles of Association or resolved by the shareholders' meeting. Except as required by Article 37 of the Company Law of Cayman Islands, the following are not prescribed in the Company Law of Cayman Islands: (1) repurchase shall be effected based on the</p>	<p>There's a slight difference in the Article 10.7 of the company's Articles of Association and the matters of material significance on the protection of shareholders' rights and interests as stated left. Under the Company Law of Cayman Islands, the Company may reduce shares previously issued only after a Special Resolution adopted by the shareholders' meeting and confirmed by the court of the Cayman Islands. In view of this, as the procedure prescribed in Article 14.1 and Article 10.7 of the company's Articles of Association, the Company may reduce its capital through the purchase of shares. Reasons for such difference are due to the requirements in the Company Law of Cayman Islands. However, the company's Articles of Association does not set limits on the procedure for capital reduction. Therefore, such differences should not have a material adverse effect on the Company's shareholders' rights and interests.</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>1. Procedures for the Company to enter into a stock option agreement with its employees or issue employee stock options.</p> <p>2. The stock option obtained by any employee of the issuing company shall be non-assignment, except to the heir(s) of the said employee.</p>	<p>Article 167-2 of the Company Act</p>	<p>percentage of shareholding of the shareholders pro rata, (2) return share prices (or the capital stock) to shareholders by properties other than cash shall require a prior approval, or (3) shall have the value of property returned assessed; however, it may be prescribed in the company's Articles of Association.</p>	<p>Although there have been amendments to Articles 11.1 to 11.4 of the company's Articles of Association based on the matters of material significance on the protection of shareholders' rights and interests as stated left, any restriction on assignment of employee stock options should be prescribed in the employees' stock option agreement or stock option plan in accordance with the Company Law of Cayman Islands. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
<p>II. Procedure for convening a shareholders' meeting or the method of resolutions</p>			
<p>1. A regular meeting of shareholders shall be held at least once every year and convened within six months after close of each fiscal year. A shareholders meeting shall be convened by the Board of Directors.</p> <p>2. A shareholders' meeting shall be convened within the territory of the Republic of China. Where a shareholders' meeting is to be</p>	<p>1. Article 170 of the Company Act</p> <p>2. Article 172-1 of the Company Act</p> <p>3. Paragraph 1 & 2, Article 173 of the Company Act</p> <p>4. Article 172 of the Company Act, Article 26-1 & 43-6 of the Securities and Exchange Act</p> <p>5. Article 173-1 of the Company Act</p>	<p>1. (a) Except for an exempted company, the shareholders' meeting shall be held by each company at least once every year as set forth in Article 58 of the Company Law of Cayman Islands.</p> <p>(b) An exempted company is not mandatorily required to convene the regular meeting of shareholders</p>	<p>For a foreign issuer being an exempted company under the Company Law of Cayman Islands, there is no need to hold an annual shareholders' meeting every year in accordance with the Company Law of the Cayman Islands provided that "The Company shall hold a general meeting as its annual general meeting within six months following the end of each fiscal year, and shall specify the</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
<p>convened outside the territory of the Republic of China, the Company shall apply for the approval of TWSE within two days after the Board resolution or obtaining the approval of the competent authority to convene the meeting by the shareholder(s).</p> <p>3. Shareholders holding 1% or more of the total issued shares may present to the foreign issuer a proposal at a shareholders' meeting in writing or electronically. The foreign issuer shall accept such proposals submitted by shareholders unless (i) the proposal involves matters which cannot be resolved at a shareholders' meeting (ii) the number of shares held by the shareholder is less than 1% of the total issued shares, (iii) the proposal was submitted not within the announced accepted period of time, or (iv) the proposal exceed 300 words or includes more than one proposal. For proposal urging the foreign issuer to promote public interests or fulfil its social responsibility, the board shall accept such proposal.</p> <p>4. Any or a plural number of shareholder(s) of a company who has (have) continuously held 3% or more of the total number of outstanding shares for a period of</p>		<p>by the Company Law of Cayman Islands. The Company may include the number of shareholders' meetings required to be convened by the company every year in its Articles of Association.</p> <p>2. The shareholders' meeting of an exempted company is not restricted to be convened at a specific place by the Company Law of Cayman Islands; however, it may be prescribed in the company's Articles of Association.</p> <p>3. The shareholders' meeting convened by shareholder(s) or shareholders' proposal right is not required by the Company Law of Cayman Islands; however, the relevant procedures may be prescribed in the Articles of Association.</p> <p>4. The contents of the shareholders' meeting notice is not required by the Company Law of Cayman Islands; however, it may be prescribed in the Company's Articles of Association.</p> <p>5. The detail of the convention of shareholders' meetings is not required by the Company Law of Cayman Islands; however, the relevant procedures may be prescribed in the Articles of Association.</p>	<p>meeting as such in the notices calling it. At these meetings, the report of the Directors (if any) shall be presented." as prescribed in Article 16.2 of the Company's Articles of Association.</p> <p>Other matters are prescribed respectively in Articles 16.2, 16.3, 16.4, 18.9, 16.5 to 16.8, and 17.5 of the company's Articles of Association.</p> <p>Per Letter Tai-Zheng-Shang-Zi No. 0991701319 filed on April 13, 2010 by the TWSE, "Explanation 2 (3): To the extent that the laws of the place of registration are not contradicted, a foreign issuer may remove the part of "obtaining an approval from the competent authority" from the clause on the right of minority shareholders to call a special shareholders' meeting in the articles of association." Therefore, subject to Article 16.8 of the company's Articles of Association, "If the board of Directors do not within fifteen days from the date of the deposit of the requisition dispatch the notice of an extraordinary general meeting, the requisitionists may themselves convene an extraordinary general meeting in accordance with the Applicable Public Company Rules." Such difference should not have a material adverse effect on the</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>one year or a longer time may, by filing a written proposal setting forth therein the subjects for discussion and the reasons, request the Board of Directors to call a special meeting of shareholders. If the Board of Directors fails to give a notice for convening a special meeting of shareholders within 15 days after the filing of the request, the proposing shareholder(s) may, after obtaining an approval from the competent authority, convene a special meeting of shareholders on his/their own.</p> <p>5. Shareholders continuously holding no less than 50% of the total issued shares for three months or longer are eligible to convene a special general meeting. The calculation of the holding period and holding number of shares shall be based on the holding at the time of share transfer suspension date.</p> <p>6. The following matters shall not shall be itemized in the causes or subjects to be described in the notice to convene a meeting of shareholders and explained about the important contents thereof, and shall not be brought up as extemporary motions; the main content can be announced at the website designated by Taiwan securities authority or by the foreign issuer, and the foreign issuer shall</p>			<p>Company's shareholders' rights and interests.</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>specify the link to the website on the notice</p> <ol style="list-style-type: none"> (1) Election or discharge of Directors and supervisors; (2) Alteration of the Articles of Association; (3) Capital reduction; (4) Application to terminate public offering; (5) Dissolution, merger, conversion of shares, spin-off of the company; (6) Enter into, amend, or terminate any contract for lease of the company's business in whole, or for entrusted business, or for regular joint operation with others; (7) Transfer the whole or any essential part of its business or assets; (8) Accept the transfer of another's whole business or assets, which has great bearing on the business operation of the company; (9) Private placement of any equity-type securities; (10) Granting waiver to the Director's engaging in any business within the scope of business of the Company; (11) Distributing part or all of its dividends or bonus by way of issuance of new Shares; and (12) Distribution of legal reserve fund from profit and capital reserve 			

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>from share premium or gift, by means of rights issue or cash payment to existing shareholders.</p> <p>1. The voting power at a shareholders' meeting may be exercised in writing or by way of electronic transmission. Where the company meeting the "Range of Companies Subject to Electronic Voting Requirement" promulgated by the securities authority of the Republic of China; however, shall adopt the electronic transmission as one of the methods for exercising the voting power.</p> <p>2. Where a shareholders' meeting is to be convened outside the territory of the Republic of China, the Company must allow the shareholders to exercise the votes and cast the votes in writing or by way of electronic transmission</p> <p>3. The method for exercising the voting power shall be described in the shareholders' meeting notice to be given to the shareholders if the voting power will be exercised in writing or by way of electronic transmission by the company. A shareholder who exercises his/her/its voting power at a shareholders meeting in writing or by way of electronic transmission shall be deemed to have attended the</p>	<p>1. Article 177-1 of the Company Act</p> <p>2. Article 177-2 of the Company Act</p>	<p>1. A shareholder shall not exercise his/her/its voting power in writing or by way of electronic transmission. Unless otherwise provided by the company's Articles of Association; however, a shareholder may authorize a proxy in writing or by way of electronic transmission to exercise the voting rights of his/her/its shares at the meeting.</p> <p>2. In case a shareholder exercises the voting power in his/her/its behalf through a proxy, he/she/it will not be deemed to have attended the shareholders' meeting in person.</p> <p>3. The Company's Articles of Association may prescribe the delivery of the power of attorney.</p> <p>4. There is no stipulation that a shareholder revokes the power of attorney in the Company Law of Cayman Islands. However, under principles of common law, notwithstanding anything in the Company's Articles of Association to the contrary, shareholders who attend the shareholders' meeting in person to exercise their voting power shall have the preemptive effect, provided that the Company's Articles of Association may prescribe the</p>	<p>As prescribed in Article 19.6 of the company's Articles of Association, "A Member exercising voting power by way of a written ballot or by way of an electronic transmission shall be deemed to have appointed the chairman of the general meeting as his proxy to exercise his or her voting right at such general meeting in accordance with the instructions stipulated in the written or electronic document." Although the Company Law of Cayman Islands considers a shareholder exercising the voting power in such manner not to be deemed to have attended the shareholders' meeting in person, such a shareholder is still entitled to all the rights of a shareholder who has exercised his/her/its voting power in writing or by way of electronic transmission in accordance with the applicable laws and regulations of the Republic of China. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>said shareholders' meeting in person, but shall be deemed to have waived his/her/its voting power in respective of any extemporary motion(s) and/or the amendment(s) to the contents of the original proposal(s) at the said shareholders' meeting.</p> <p>4. In case a shareholder elects to exercise his/her/its voting power in writing or by way of electronic transmission, his/her/its declaration of intention shall be served to the company two (2) days prior to the scheduled meeting date of the shareholders' meeting, whereas if two (2) or more declarations of the same intention are served to the company, the first declaration of such intention received shall prevail; unless an explicit statement to revoke the previous declaration is made in the declaration which comes later.</p> <p>5. In case a shareholder who has exercised his/her/its voting power in writing or by way of electronic transmission intends to attend the shareholders' meeting in person, he/she/it shall, two days prior to the meeting date of the scheduled shareholders' meeting and in the same manner previously used in exercising his/her/its voting power,</p>		<p>revocation of the power of attorney when shareholders do not attend the shareholders' meeting in person.</p>	

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>serve a separate declaration of intention to rescind his/her/its previous declaration of intention made in exercising the voting power under the preceding paragraph. In the absence of a timely rescission of the previous declaration of intention, the voting power exercised in writing or by way of electronic transmission shall prevail.</p> <p>6. In case a shareholder has exercised his/her/its voting power in writing or by way of electronic transmission, and has also authorized a proxy to attend the shareholders' meeting in his/her/its behalf, then the voting power exercised by the authorized proxy for the said shareholder shall prevail.</p>			
<p>1. If any of the following proposal is adopted via the resolution of the shareholders' meeting, the dissenting Member shall execute the right of the redemption against the Company:</p> <p>(1). Any Spin-off, Merger, acquisition or Share Swap;</p> <p>(2). Enter into, amend, or terminate any contract for lease of the Company's business in whole, or for entrusted business, or for regular joint operation with others; Transfer the whole or any essential</p>	<p>1. Article § 186 and 317 of Company Act of Taiwan</p> <p>Article § 12 of Business Mergers And Acquisitions Act of Taiwan</p>	<p>According to Article § 238 of Companies Law of Cayman Islands, it sets forth the regulation with respect to the rights of dissenting Member, who execute the right of redemption against the Company.</p>	<p>There's a slight difference in the Article 22.3 of the Company's Articles of Association and the matters of material significance on the protection of shareholders' rights and interests as stated left. Under the Article § 238 of Companies Law of Cayman Islands, it has set forth the relevant regulations with respect to the rights of dissenting Member. The Article 22.2 and 22.3 of the Company's Articles of Association are amended in compliance with the protection of shareholders' rights and interests as stated left. In addition, the</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p> <p>part of its business or assets; or Accept the transfer of another's whole business or assets, which has great bearing on the business operation of the company.</p> <p>2. The requesting Member, in the prior Section, shall provide the written notice to the Company within twenty days after the adoption of resolution made by Shareholders' meeting, stating therein the appraisal price of shares. In the event the requesting Member and the Company have reached an agreement in regard to the appraisal price of the Shares held by such requesting Member, the Company shall pay such price within ninety days after the date on which the resolution was adopted. In the event the requesting Member and the Company fail to reach any agreement with respect to the appraisal price, the Company shall pay the price to which the Company considers to be fair price, to the requesting Member within ninety days after the date of the relevant resolution. If the Company fails to pay the price to which the Company considers to be the fair price within ninety days after the date in which the resolution was adopted, the Company shall be deemed to have</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p> <p>Article 22.3 of the Company's Articles of Association is also amended to specify that dissenting Member will reserve the right under the Article § 238 of Companies Law of Cayman Islands. Reasons for such difference are due to the requirements in the Company Law of Cayman Islands. Therefore, such differences should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
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Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>agreed to the appraisal price requested by the dissenting Member.</p> <p>3. In the event the Company and the requesting Member, who executes the right under the Paragraph I of Section I, fail to reach the agreement with respect to the appraisal price within sixty days after the resolution date, the Company shall, within thirty days after such sixty-day period, file a petition to Taipei District Court or a ruling on the appraisal price against all the requesting Members as the opposing party.</p>			
<p>Any of the following proposals involving material rights or interests of shareholders shall not be adopted without a resolution adopted by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares. If the total number of shares represented by the shareholders present at shareholders' meeting is not sufficient to meet the criteria specified in the above mentioned, the resolution to be made thereto may be adopted by two-thirds or more of the attending shareholders who represent a majority of the total number of its outstanding shares:</p> <p>1. A company enters into, amend, or terminate any contract for lease of</p>	<p>1. Article 185 of the Company Act 2. Article 227 of the Company Act 3. Article 227 of the Company Act 4. Paragraph 1, Article 240 of the Company Act 5. Article 316 of the Company Act</p>	<p>1. According to Article 60 of the Company Law of Cayman Islands, a special resolution means a resolution that has been passed by a majority of not less than two-thirds (where there is any higher percentage of the total number of the voting rights is required in the Articles of Association, such higher percentage shall prevail) of such members as, being entitled to do so, vote in person or, where a power of attorney is allowed, by a proxy at a shareholders' meeting. As usually prescribed by a general Cayman Company's Articles of Association, a special resolution by which such proposal should be adopted shall be specified in the shareholders' meeting</p>	<p>1. Article 1.1 of the Company's Articles of Association (a) Provisions of the Company's Articles of Association According to Article 1.1 of the Company's Articles of Association, a special resolution means "a resolution passed by a majority of not less than two-thirds of votes cast by such Members as, being entitled so to do, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. means a resolution passed by a majority of not less than two-thirds of votes cast</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>the company's business in whole, or for entrusted business, or for regular joint operation with others, transfer the whole or any essential part of its business or assets, accept the transfer of another's whole business or assets, which has great bearing on the business operation of the company</p> <p>2. Modification or alteration of the Articles of Association</p> <p>3. Any modification or alteration in the Articles of Association prejudicial to the privileges of special shareholders shall be adopted by a meeting of special shareholders additionally</p> <p>4. Have the whole or a part of the surplus profit distributable as dividends and bonuses distributed in the form of new shares to be issued by the company for such purpose</p> <p>5. A resolution for dissolution, consolidation or merger, or split-up of a company</p>		<p>notice. A written resolution signed by all shareholders, provided that it has been authorized by the company's Articles of Association, is also deemed as a special resolution made. When the number of votes is required in the manner for exercising the voting power to calculate whether it belongs to a majority of special resolution, the company's Articles of Association may specify the total number of votes entitled to each shareholder.</p> <p>2. According to the Company Law of Cayman Islands, matters that require a special resolution include: (i) change the company name (Article 31); (ii) alter or add to articles of association (Article 24); (iii) alter or add to the memorandums of association with respect to any objects, powers or other matters specified therein (Article 10); (iv) reduce share capital and any capital redemption reserve (Article 14 and 37(4)(d)); (v) wind up voluntarily for reasons other than that the company is unable to pay its debts as they fall due (Article 116(c)); and (vi) merger or consolidation with other company.</p> <p>According to the Company Law of Cayman Islands, any resolution adopted by shareholders lower than</p>	<p>by such Members as, being entitled so to do, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given." According to the Cayman Islands legal opinions, matters that require a special resolution include but are not limited to: (i) change the company name; (ii) alter or add to Articles of Association; (iii) alter or add to the memorandums of association with respect to any objects, powers or other matters specified therein; (iv) reduce share capital and any capital redemption reserve; (v) wind up voluntarily for reasons other than that the company is unable to pay its debts as they fall due; and (vi) merger or consolidation with other company. Additionally, according to Article 18.1 of the Company's Articles of Association, "No business shall be transacted at any general meeting unless a quorum is present. Unless otherwise provided in the Statute, the Articles and the Applicable Public Company Rules, Members present in person or by proxy, representing more than one-half of the total issued, outstanding Shares, shall constitute a quorum for</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p> <p>the majority threshold for a matter that requires a special resolution is deemed invalid</p> <p>3. For matters other than those stated above, the Company Law of Cayman Islands does not require them to be adopted by a certain majority; however, it may be prescribed in the company's Articles of Association.</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p> <p>any general meeting." That is, a special resolution may be adopted at a shareholders' meeting attended by a majority of shares issued and outstanding in person or by a proxy, and in which at least two-thirds of the votes cast by the shareholders present (including shareholders present by a proxy) are in favor of the resolution.</p> <p>(b) Reasons for discrepancy</p> <p>According to the Cayman Islands legal opinions, the special resolution is subject to the Company Law of Cayman Islands, and according to which, any resolution adopted by shareholders lower than the majority threshold for a matter that requires a special resolution is deemed invalid. And Article 1.1 of the company's Articles of Association defines separately "Supermajority Resolution" as "a resolution adopted by a majority vote of the Members present and entitled to vote on such resolution at a general meeting attended in person or by proxy by Members who represent two-thirds or more of the total issued, outstanding Shares of the Company or, (ii) if the total number of Shares represented by the Members present at the general meeting is less than</p>
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Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
			<p>two-thirds of the total issued, outstanding Shares of the Company, but more than half of the total issued, outstanding Shares of the Company, a resolution adopted at such general meeting by the Members who represent two-thirds or more of the Shares present and entitled to vote on such resolution."</p> <p>For any matter of material significance on the protection of shareholders' rights and interests as stated left, if it should be adopted by a special resolution pursuant to the Company Law of Cayman Islands, it will be still listed as one of matters under "Special Resolution" in the company's Articles of Association; otherwise, it will be listed as one of matters under "Supermajority Resolution."</p> <p>2. Article 14.3 of the company's Articles of Association (moved to Article 14.4 if the proposed amendment to the Articles of Association is adopted at the annual general meeting of 2018)</p> <p>(a) Provisions of the company's Articles of Association: According to Article 14.3 of the company's Articles of Association, "Subject to the provisions of the Statute, the Articles, and the Applicable Public Company Rules,</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
			<p>with regard to the dissolution procedures of the Company, the Company shall pass (a) Supermajority Resolution, if the Company resolves that it be wound up voluntarily because it is unable to pay its debts as they fall due; or (b) a Special Resolution, if the Company resolves that it be wound up voluntarily for reasons other than the reason stated in Article 14.3(a) above." The slight difference between it and the matters of material significance on the protection of shareholders' rights and interests as stated left lies in: based on the reasons for resolution to dissolve, the company's Articles of Association lists the resolution for dissolution as one of matters under "Supermajority Resolution" or "Special Resolution," respectively. In comparison, the matters of material significance on the protection of shareholders' rights and interests always require to be adopted by "Supermajority Resolution."</p> <p>(b) Reasons for discrepancy: According to the Cayman Islands legal opinions, the Company Law of Cayman Islands provides that a company shall resolve that it be wound up voluntarily for reasons</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
			<p>other than being unable to pay its debts as they fall due by a special resolution. Thus the difference arises out of the laws of Cayman Islands. From the above, we can know that such difference comes from what is limited by law of Cayman Islands. Therefore, "if the Company resolves that it be wound up voluntarily because it is unable to pay its debts as they fall due," a Supermajority Resolution shall be adopted at the shareholders' meeting as prescribed in the company's Articles of Association, while a company is being wound up voluntarily for reasons other than the reason stated in Article 14.3(a), it will be listed as one of matters under "Special Resolution" as required by the Company Law of Cayman Islands. Such difference comes from what is limited by law of Cayman Islands, which should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
<p>III. Authorities and responsibilities of directors and supervisors</p>			
<p>The remuneration of directors, if not prescribed in the Articles of Association, shall be determined by a meeting of shareholders and cannot be ratified by a meeting of shareholders.</p>	<p>Paragraph 1, Article 196 of the Company Act</p>	<p>The Company Law of Cayman Islands does not clearly specify how to determine remuneration of directors; however, it may be prescribed in the company's Articles of Association.</p>	<p>Although neither the remuneration of directors is clearly specified nor it shall be determined by a meeting of shareholders is specified in the company's Articles of Association, referring to per Explanation Shang-Zi No. 09302030870 filed on March 8,</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>In case a director has, in the course of performing his/her duties, committed any act resulting in material damages to the company or in serious violation of applicable laws and/or regulations, but not discharged by a resolution of the shareholders' meeting, the shareholder(s) holding 3% or more of the total number of outstanding shares of the company may, within 30 days after that shareholders' meeting, institute a lawsuit in the court for a judgment in respect of such matter. The Taiwan Taipei District Court, R.O.C, may be the court of the first instance for this matter.</p>	<p>Article 200 of the Company Act</p>	<p>1. The Company Law of Cayman Islands does not clearly specify that the minority shareholders may institute a lawsuit in the court of Cayman Islands for discharge of directors.</p> <p>2. In general, the procedure for discharge of directors is prescribed in the company's Articles of Association, and that an ordinary resolution should be adopted at the shareholders' meeting is typically prescribed.</p> <p>3. According to shareholders' remedies required by the common law, in a lawsuit accusing a director of bringing about infringement to the company, the proper plaintiff in form should be the company per se and not an individual shareholder or minority shareholders. There are only a few of exceptions for the above principle,</p>	<p>2004 by the Ministry of Economic Affairs and the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter," the Company's Board of Director has established a remuneration committee. Therefore, the provisions as stated left should not have a material adverse effect on the Company's shareholders' rights and interests.</p> <p>(1) Provisions of the company's Articles of Association: According to Article 28.2 (j) of the company's Articles of Association, "Subject to the provisions of the Statute, and the Articles or the Applicable Public Company Rules, in the event that he has, in the course of performing his duties, committed any act resulting in material damage to the Company or in serious violation of applicable laws and/or regulations or the Memorandum and the Articles, but has not been removed by the Company pursuant to a Supermajority Resolution vote, then any Member(s) holding 3% or more of the total number of issued, outstanding Shares shall have the right, within thirty days after that general meeting, to petition any competent court for the removal of such Director, at the Company's</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p> <p>including that when the conduct of a director constitutes a fraud against the minority shareholders and the person who commits such fraud is a company's controller, the minority shareholders who have suffered the fraud may institute a lawsuit in the court.</p> <p>4. Since the court of the Cayman Islands cannot ratify and enforce foreign non-monetary judgments before re-examination on the legal basis of the said dispute, such stipulation added in the company's Articles of Association may not be executed under the Company Law of Cayman Islands. Directors may be discharged according to the procedure prescribed in the Company's Articles of Association.</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p> <p>expense and such Director shall be removed upon the final judgment by such court. For clarification, if a relevant court has competent jurisdiction to adjudicate all of the foregoing matters in a single or a series of proceedings, then, for the purpose of this paragraph (j), final judgment shall be given by such competent court." It is slightly different from the matters of material significance on the protection of shareholders' rights and interests as stated left.</p> <p>(2)Reasons for discrepancy: The Company Law of Cayman Islands does not clearly specify that the minority shareholders are allowed to enter a petition in the court of Cayman Islands for discharge of directors. Under the common law, the subrogation litigation of shareholders will be claimed only under rare circumstances. Thus the company's Articles of Association prescribes that a shareholder shall institute a lawsuit in a competent court. Since shareholders may discharge a directors according to the company's Articles of Association, it should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
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Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<ol style="list-style-type: none"> 1. Supervisors of a company shall be elected by the meeting of shareholders, among them at least one supervisor shall have a domicile within the territory of the Republic of China. 2. The term of office of a supervisor shall not exceed three years, but he may be eligible for re-election. 3. In case all supervisors of a company are discharged, the Board of Directors shall, within sixty (60) days, convene a special meeting of shareholders to elect new supervisors. 4. Supervisors shall supervise the execution of business operations of the company, and may at any time or from time to time investigate the business and financial conditions of the company, examine the accounting books and documents, and request the Board of Directors or managerial personnel to make reports thereon. 5. Supervisors shall audit the various statements and records prepared for submission to the shareholders' meeting by the Board of Directors, and shall make a report of their findings and opinions at the meeting of shareholders. 6. In performing their functional duties of auditing, the supervisors may 	<p>Article 216 to 222 of the Company Act</p>	<p>The Company Law of Cayman Islands has no corresponding concept of "Supervisor." The effect that supervisors are installed in accordance with the company's Articles of Association is not clear.</p>	<p>Article 32.6 of the company's Articles of Association</p> <p>As described in the former section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings "A foreign issuer shall install either an audit committee or supervisors". The Company has installed an audit committee by all independent directors (Article 32.6 of Articles of Association); therefore, supervisors are not required to be installed additionally. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>appoint a certified public accountant to conduct the auditing in their behalf.</p> <p>7. Supervisors of a company may attend the meeting of the Board of Directors to give their opinions. In case the Board of Directors or any director commits any act, in carrying out the business operations of the company, in a manner in violation of the laws, regulations, the Articles of Incorporation or the resolutions of the shareholders' meeting, the supervisors shall forthwith advise, by a notice, to the Board of Directors or the Director, as the case may be, to cease such act.</p> <p>8. The supervisors may each exercise the supervision power individually.</p> <p>9. A supervisor shall not be concurrently a director, a managerial officer or other staff/employee of the company.</p>	<p>Article 200, 214, 220 and 227 of the Company Act</p>		
<p>1. Shareholder(s) who has/have been continuously holding 1% or more of the total number of the outstanding shares of the company over six months may request in writing the supervisors of the company to institute, for the company, an action against a director of the company. The Taiwan Taipei District Court, R.O.C, may be the court of the first instance for this matter.</p>	<p>Article 200, 214, 220 and 227 of the Company Act</p>	<p>1. The Company Law of Cayman Islands has no corresponding concept of "Supervisor." The effect that supervisors are installed in accordance with the company's Articles of Association is not clear.</p> <p>2. According to shareholders' remedies required by the common law, in a lawsuit accusing a director of bringing about infringement to the company, the proper plaintiff in form</p>	<p>Article 25.6 of the company's Articles of Association</p> <p>As described in the former section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings "A foreign issuer shall install either an audit committee or supervisors." The Company has installed an audit committee by all independent directors;</p>

Matters of material significance on the protection of shareholders' rights and interests	Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"	Regulations relating to the laws of the foreign issuer's country of registration place	Provisions in the Company's Articles of Association and reasons for the discrepancy
<p>2. In case the supervisors fail to institute an action within 30 days after having received the request made by shareholder(s), then the shareholders filing such request may institute the action for the company. The Taiwan Taipei District Court, R.O.C, may be the court of the first instance for this matter.</p> <p>3. In addition to the events that the board of directors does not or is unable to convene a shareholders meeting, the supervisors or audit committee may, for the benefit of the company, convene shareholders meeting when necessary.</p>		<p>should be the company per se and not an individual shareholder or minority shareholders. There are only a few of exceptions for the above principle, including that when the conduct of a director constitutes a fraud against the minority shareholders and the person who commits such fraud is a company's controller, the minority shareholders who have suffered the fraud may institute a lawsuit in the court.</p> <p>3. Since the court of the Cayman Islands cannot ratify and enforce foreign non-monetary judgments before re-examination on the legal basis of the said dispute, such stipulation added in the company's Articles of Association may not be executed under the Company Law of Cayman Islands. Directors may be discharged according to the procedure prescribed in the company's Articles of Association.</p>	<p>therefore, supervisors are not required to be installed additionally. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
<p>In case a director or supervisor (applicable to companies who install supervisors) of a company whose shares are issued to the public has created a pledge on the company's shares more than half of the company's shares being held by him/her/it at the time he/she/it is elected, the voting power of the excessive portion of shares shall not be exercised and the excessive portion of</p>	<p>Article 197-1 of the Company Act</p>	<p>The fact that shares held by directors shall have no voting power (under which circumstances) is not required by the Company Law of Cayman Islands; however, the relevant procedures may be prescribed in the Articles of Association.</p>	<p>Article 24.3 of the company's Articles of Association</p> <p>In addition, as described in the former section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings "A foreign issuer shall install either an audit committee or supervisors". The Company has installed</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p> <p>shares shall not be counted in the number of votes of shareholders present at the meeting.</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p>
<p>1. The director of a company shall have the loyalty and shall exercise the due care of a good administrator in conducting the business operation of the company; and if he/she has acted contrary to this provision, shall be liable for the damages to be sustained by the company therefrom. In case the director of a company does anything for himself/herself or on behalf of another person, the meeting of shareholders may, by a resolution, consider the earnings in such an act as earnings of the company.</p> <p>2. If the director of a company has, in the course of conducting the business operations, violated any provision of the applicable laws and/or regulations and thus caused damage to any other person, he/she</p>	<p>Paragraph 2, Article 8, Paragraph 3, Article 23 of the Company Act</p>	<p>1. The Company Law of Cayman Islands includes specifically obligations of directors as clear directions. According to the common law of Cayman Islands, each shareholder being liable to (1) fiduciary duties, and (2) exercise the due care of a good administrator for the company (duty of care). The company may claim compensation against the directors who have violated the above duties. In addition, directors who have violated their duties acquire interests shall be bound to return the same to the company.</p> <p>2. Based on principles of common law, in the course of operation for management of the company's businesses, the acts of a director representing the company will be deemed as the acts of the company</p>	<p>an audit committee by all independent directors; therefore, supervisors are not required to be installed additionally. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests. Thus supervisors are not included in the above mentioned Articles of Association. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p> <p>Article 26.5 of the company's Articles of Association</p> <p>However, if the director of a company has, in the course of conducting the business operations, violated any provision of the applicable laws and/or regulations and thus caused damage to any other person, such other person may not be able to claim compensation directly from such director under the law of Cayman Islands. Even the company's Articles of Association requires that the director shall be jointly liable for compensation with the company to the other person, the base of such claim will be unable to be created.</p> <p>In addition, although Article 26.5 of the company's Articles of Association has required that such clause of obligation is also applicable to managerial officers;</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p> <p>shall be liable, jointly and severally, for the damage to such other person.</p> <p>3. The managerial officer or supervisor of a company, acting within the scope of their duties, shall assume the liabilities for the damage in the same manner as directors of a company do.</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p> <p>per se. If the conduct thereof causes damage of any third party, the company, not the director, shall be bound to be liable the third party for the acts. The third party caused by the damage cannot demand from the company the compensation and impose obligations on the directors according to the company's Articles of Association. Any third party who is not a shareholder cannot execute it according to the company's Articles of Association. The company who is liable for the damage to be sustained by the third party because the directors who have violated the duties may claim reimbursement against the directors caused the damage.</p> <p>3. The managerial officer generally has no fiduciary duties for the company. Since managerial officers are not the parties pursuant to the Articles of Association, no execution effect is present even it is prescribed in the Articles of Association. The above duties shall be entered into the contracts with managerial officer.</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p> <p>however, it shall be entered into the contracts with managerial officers in accordance with the law of Cayman Islands. Therefore, if the responsibilities of managerial officers for the matters of material significance on the protection of shareholders' rights and interests as stated left will be implemented, the Company shall enter into the contracts with managerial officers. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
<p>Where a juristic person acts as a shareholder of a company, its authorized representative may be elected as a director or supervisor of the company. If there is a plural number of such authorized representatives, each of them</p>	<p>Paragraph 2, Article 27 of the Company Act</p>	<p>1. The fact that an authorized representative of a juristic person acting as a shareholder being elected as a director is not regulated by the Company Law of Cayman Islands;</p>	<p>Article 27.4 of the Company's Articles of Association</p> <p>As described in the former section of Paragraph 2, Article 28-4 of Taiwan Stock Exchange Corporation Rules</p>

<p>Matters of material significance on the protection of shareholders' rights and interests</p> <p>may be so elected, but such authorized representatives may not concurrently be selected or serve as the director or supervisor of the company.</p>	<p>Applicable laws and regulations of "Company Act" or "Securities and Exchange Act"</p>	<p>Regulations relating to the laws of the foreign issuer's country of registration place</p> <p>however, it may be prescribed in the Articles of Association. 2.The Company Law of Cayman Islands has no corresponding concept of "Supervisor." The effect that supervisors are installed in accordance with the company's Articles of Association is not clear.</p>	<p>Provisions in the Company's Articles of Association and reasons for the discrepancy</p> <p>Governing Review of Securities Listings "A foreign issuer shall install either an audit committee or supervisors." The Company has installed an audit committee by all independent directors; therefore, supervisors are not required to be installed additionally. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests. Thus supervisors are not included in the above mentioned Articles of Association. Such difference should not have a material adverse effect on the Company's shareholders' rights and interests.</p>
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8.6 Any Events in 2019 and as of the Date of Publication of the Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Article 36-3-2 of the Securities and Exchange Law of Taiwan

None.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Alchip Technologies, Limited:

Opinion

We have audited the accompanying consolidated financial statements of Alchip Technologies, Limited and its subsidiaries (collectively referred to as the Company), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certificate Public Account of Republic of China, and we have fulfilled our other ethical responsibilities in accordance with the requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for the opinion.

Key Audit Matters

Key audit matters are matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters have been reflected in the entirety of the audited consolidated financial statements and throughout the process of the opinion formation. We do not provide opinions separately for these matters.

Key audit matter for the Company's consolidated financial statements for the year ended December 31, 2019 is stated as follows:

Impairment Assessment of Equipment

As described in Note 5 of the consolidated financial statements, when the equipment related to chip production has any indication of impairment, the Company evaluates impairment loss based on the recoverable amount of equipment (Which is higher of its fair value less costs to sell or value-in-use). The recoverable amount, which is estimated based on the anticipation of the production life cycle of chips, projected production volume, and market price, is subject to a risk of changes in relation to the assumptions that could result in additional impairment loss or reversal of impairment loss. Consequently, the impairment assessment of equipment is deemed to be a key audit matter.

Our main audit procedures in respect of assessment thereof included as following: 1. Assessed the underlying information the management used when assessing whether there is any indication of impairment. 2. Reviewed the methodologies applied for the determination of the recoverable amount and the projected sales forecasts prepared by the management and evaluated the appropriateness of the impairment assessment which the management performed.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

5. Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence for the financial information of entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of consolidated financial statements for the year ended December 31, 2019, and are therefore the key audit matter. We describe thematter in our auditor's report unless law or regulations precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Yi-Wen Wang and Cheng-Ming Lee.

The independent auditors' report and the accompanying consolidated financial statements have been translated into English from original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidatd financial statements shall prevail.

March 6, 2020

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

Code	ASSETS	December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
	CURRENT ASSETS				
1100	Cash and Cash Equivalents (Note 6)	\$ 2,377,250	46	\$ 1,142,113	31
1120	Financial Assets at Fair Value Through Other Comprehensive Income (Note 7)	103,208	2	20,889	1
1136	Financial Assets at Amortized Cost (Note 8)	-	-	601,565	16
1170	Accounts Receivable, Net (Note 10)	898,115	17	670,738	18
1200	Other Receivables	22,230	-	22,140	1
130X	Inventories (Note 11)	581,577	11	281,278	8
1410	Prepayments (Note 16)	82,871	2	124,914	3
1470	Other Current Assets	42,996	1	20,148	-
11XX	Total Current Assets	<u>4,108,247</u>	<u>79</u>	<u>2,883,785</u>	<u>78</u>
	NON-CURRENT ASSETS				
1517	Financial Assets at Fair Value Through Other Comprehensive Income (Note 7)	354,372	7	318,809	9
1600	Property, Plants, and Equipment (Note 13)	389,422	7	316,836	8
1755	Right-of-use Asset (Note 14)	110,085	2	-	-
1780	Intangible Assets (Note 15)	221,553	4	146,759	4
1840	Deferred Tax Assets (Note 25)	26,400	1	34,889	1
1900	Other Non-current Assets	14,987	-	16,326	-
15XX	Total Non-current Assets	<u>1,116,819</u>	<u>21</u>	<u>833,619</u>	<u>22</u>
1XXX	TOTAL ASSETS	<u>\$ 5,225,066</u>	<u>100</u>	<u>\$ 3,717,404</u>	<u>100</u>
	LIABILITIES AND EQUITY				
	CURRENT LIABILITIES				
2100	Short-term Borrowings (Note 17)	\$ 15,496	-	\$ -	-
2130	Contract Liabilities (Note 23)	774,994	15	316,979	8
2170	Accounts Payable	415,035	8	135,734	4
2200	Other Payables (Note 18)	474,897	9	204,706	5
2230	Current Tax Liabilities (Note 25)	44,984	1	64,461	2
2280	Lease Liabilities (Note 14)	37,692	1	-	-
2313	Deferred Revenue (Note 22)	43,951	1	44,813	1
2399	Other Current Liabilities	8,617	-	1,881	-
21XX	Total Current Liabilities	<u>1,815,666</u>	<u>35</u>	<u>768,574</u>	<u>20</u>
	NON-CURRENT LIABILITIES				
2570	Deferred Tax Liabilities (Note 25)	12,209	-	9,986	-
2580	Lease Liabilities (Note 14)	73,689	1	-	-
2630	Deferred Revenue	21,757	1	17,945	1
25XX	Total Non-current Liabilities	<u>107,655</u>	<u>2</u>	<u>27,931</u>	<u>1</u>
2XXX	Total Liabilities	<u>1,923,321</u>	<u>37</u>	<u>796,505</u>	<u>21</u>
	EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 21)				
3110	Share Capital	606,129	12	597,731	16
3200	Capital Surplus	1,534,620	29	1,456,360	39
	Retained Earnings				
3320	Special Reserve	67,693	1	67,693	2
3350	Unappropriated Earnings	1,097,056	21	754,229	20
3300	Total Retained Earnings	1,164,749	22	821,922	22
3400	Other Equity	(3,753)	-	44,886	2
3XXX	Total Equity	<u>3,301,745</u>	<u>63</u>	<u>2,920,899</u>	<u>79</u>
	TOTAL	<u>\$ 5,225,066</u>	<u>100</u>	<u>\$ 3,717,404</u>	<u>100</u>

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands of U.S. Dollars)

Code	ASSETS	December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
	CURRENT ASSETS				
1100	Cash and Cash Equivalents (Note 6)	\$ 79,295	46	\$ 37,184	31
1120	Financial Assets at Fair Value Through Other Comprehensive Income (Note 7)	3,443	2	680	1
1136	Financial Assets at Amortized Cost (Note 8)	-	-	19,585	16
1170	Accounts Receivable, Net (Note 10)	29,957	17	21,837	18
1200	Other Receivables	742	-	720	1
130X	Inventories (Note 11)	19,399	11	9,158	8
1410	Prepayments (Note 16)	2,764	2	4,067	3
1470	Other Current Assets	<u>1,433</u>	<u>1</u>	<u>656</u>	<u>-</u>
11XX	Total Current Assets	<u>137,033</u>	<u>79</u>	<u>93,887</u>	<u>78</u>
	NON-CURRENT ASSETS				
1517	Financial Assets at Fair Value Through Other Comprehensive Income (Note 7)	11,820	7	10,380	9
1600	Property, Plants, and Equipment (Note 13)	12,989	7	10,315	8
1755	Right-of-use Asset (Note 14)	3,672	2	-	-
1780	Intangible Assets (Note 15)	7,390	4	4,778	4
1840	Deferred Tax Assets (Note 25)	881	1	1,136	1
1900	Other Non-current Assets	<u>500</u>	<u>-</u>	<u>532</u>	<u>-</u>
15XX	Total Non-current Assets	<u>37,252</u>	<u>21</u>	<u>27,141</u>	<u>22</u>
1XXX	TOTAL ASSETS	<u>\$ 174,285</u>	<u>100</u>	<u>\$ 121,028</u>	<u>100</u>
	LIABILITIES AND EQUITY				
	CURRENT LIABILITIES				
2100	Short-term Borrowing (Note 17)	\$ 517	-	\$ -	-
2130	Contract Liabilities (Note 23)	25,850	15	10,320	8
2170	Accounts Payable	13,844	8	4,419	4
2200	Other Payables (Note 18)	15,840	9	6,665	5
2230	Current Tax Liabilities (Note 25)	1,500	1	2,099	2
2280	Lease Liabilities (Note 14)	1,257	1	-	-
2313	Deferred Revenue (Note 22)	1,466	1	1,459	1
2399	Other Current Liabilities	<u>288</u>	<u>-</u>	<u>61</u>	<u>-</u>
21XX	Total Current Liabilities	<u>60,562</u>	<u>35</u>	<u>25,023</u>	<u>20</u>
	NON-CURRENT LIABILITIES				
2570	Deferred Tax Liabilities (Note 25)	407	-	325	-
2280	Lease Liabilities (Note 14)	2,458	1	-	-
2630	Deferred Revenue	<u>726</u>	<u>1</u>	<u>584</u>	<u>1</u>
25XX	Total Non-current Liabilities	<u>3,591</u>	<u>2</u>	<u>909</u>	<u>1</u>
2XXX	Total Liabilities	<u>64,153</u>	<u>37</u>	<u>25,932</u>	<u>21</u>
	EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 21)				
3110	Share Capital	<u>19,034</u>	<u>11</u>	<u>18,761</u>	<u>15</u>
3200	Capital Surplus	<u>49,324</u>	<u>28</u>	<u>46,788</u>	<u>39</u>
	Retained Earnings				
3320	Special Reserve	2,799	2	2,799	2
3350	Unappropriated Earnings	<u>38,183</u>	<u>22</u>	<u>27,074</u>	<u>23</u>
3300	Total Retained Earnings	<u>40,982</u>	<u>24</u>	<u>29,873</u>	<u>25</u>
3400	Other Equity	<u>792</u>	<u>-</u>	<u>(326)</u>	<u>-</u>
3XXX	Total Equity	<u>110,132</u>	<u>63</u>	<u>95,096</u>	<u>79</u>
	TOTAL	<u>\$ 174,285</u>	<u>100</u>	<u>\$ 121,028</u>	<u>100</u>

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of U.S. Dollars and New Taiwan Dollars, Except Earnings (Loss) Per Share)

Code		2019			2018		
		US\$	NTS	%	US\$	NTS	%
4000	OPERATING REVENUE (Note 23)	\$ 140,138	\$ 4,331,956	100	\$ 114,454	\$ 3,450,678	100
5000	OPERATING COST (Notes 12 and 24)	88,021	2,720,914	63	71,619	2,159,237	63
5900	GROSS PROFIT	52,117	1,611,042	37	42,835	1,291,441	37
	OPERATING EXPENSES (Note 24)						
6100	Selling and Marketing Expenses	4,468	138,114	3	4,705	141,839	4
6200	General and Administrative Expenses	10,258	317,082	7	6,875	207,308	6
6300	Research and Development Expenses	22,183	68,574	16	20,577	620,393	18
6450	Expected Credit Losses						
	Impairment loss(reversed) on trade receivables	1,204	37,227	1	(1)	(24)	-
6000	Total Operating Expenses	38,113	1,178,164	27	32,157	969,516	28
6900	INCOME FROM OPERATIONS	14,004	432,878	10	10,678	321,925	9
	NON-OPERATING INCOME AND EXPENSES (Note 24)						
7010	Other Income	3,332	103,014	2	2,109	63,587	2
7020	Other Gains and Losses	66	2,030	-	(217)	(6,544)	-
7050	Finance Costs	(146)	(4,516)	-	(30)	(891)	-
7055	Expected Credit Losses	(263)	(8,123)	-	(1,435)	(43,272)	(1)
7000	Total Non-operating Income and Expenses	2,989	92,405	2	427	12,880	1
7900	INCOME BEFORE INCOME TAX	16,993	525,283	12	11,105	334,805	10
7950	INCOME TAX EXPENSES (Note 25)	2,969	91,771	2	2,569	77,448	2
8200	NET INCOME	14,024	433,512	10	8,536	257,357	8
	OTHER COMPREHENSIVE INCOME (LOSS)						
8310	Items that May not be Reclassified Subsequently to Profit or Loss						
8341	Exchange Differences Arising on Translation to the Presentation Currency	-	(83,190)	(2)	-	93,288	3
8360	Items that May be Reclassified Subsequently to Profit or Loss						
8361	Exchange Differences Arising on Translating Foreign Operations (Note 4)	32	975	-	32	970	-
8367	Unrealized Loss on investments in Debt Instrument at Fair Value Through Other Comprehensive Income	1,086	33,576	1	(408)	(12,322)	(1)
8300	Other Comprehensive Income (Loss) for the Year, Net of Income Tax	1,118	(48,639)	(1)	(376)	81,936	2
8500	TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ 15,142	\$ 384,873	9	\$ 8,160	\$ 339,293	10
	NET INCOME (LOSS) ATTRIBUTABLE TO						
8610	Shareholders of the Company	\$ 14,024	\$ 433,512	10	\$ 8,536	\$ 257,357	7
	TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO						
8710	Shareholders of the Company	\$ 15,142	\$ 384,873	9	\$ 8,160	\$ 339,293	10
	EARINGS PER SHARE (Note 26)						
9710	Basic Earnings per Share	\$ 0.23	\$ 7.20		\$ 0.14	\$ 4.22	
9810	Diluted Earnings per Share	\$ 0.22	\$ 6.89		\$ 0.13	\$ 4.03	

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

Code		Share Capital			Share Premium			Share Options			Treasury Shares			Capital Surplus			Retained Earnings			Exchange Differences on Translating Foreign Operations			Other Equity			Total Equity
		Share Capital	Share Premium	Share Options	Share Premium	Share Options	Treasury Shares	Share Premium	Share Options	Treasury Shares	Special Reserve	Unappropriated Earnings	Total	Special Reserve	Unappropriated Earnings	Total	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Treasury Shares	Total Equity						
A1	BALANCE, JANUARY 1, 2018	\$ 610,010	\$ 1,365,773	\$ 53,418	\$ 6,121	\$ 1,425,312	\$ 67,693	\$ 662,482	\$ 730,175	\$ 44,559	\$ 6,493	\$ 730,175	\$ 67,693	\$ 662,482	\$ 730,175	\$ 44,559	\$ 6,493	\$ 730,175	\$ -	\$ 2,714,445						
A3	Effects of Retrospective Application	-	-	-	-	-	-	(13,194)	(13,194)	-	-	(13,194)	-	-	-	-	-	7,509	-	808						
A5	Adjusted Balance January 1, 2018	610,010	1,365,773	53,418	6,121	1,425,312	67,693	649,288	716,981	(44,559)	-	716,981	67,693	649,288	716,981	(44,559)	-	7,509	-	2,715,253						
B5	Appropriation of 2017 Earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-						
	Cash Dividends	-	-	-	-	-	-	(64,008)	(64,008)	-	-	(64,008)	-	-	-	-	-	-	-	(64,008)						
N1	Share-based Compensation	-	-	47,675	-	47,675	-	-	-	-	-	47,675	-	-	-	-	-	-	-	47,675						
K1	Issue of Ordinary Shares Under the Employee Share Options	6,971	55,056	(21,457)	-	33,599	-	-	-	-	-	33,599	-	-	-	-	-	-	-	40,570						
L1	Buy-back of Treasury Shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(157,884)	(157,884)						
L3	Cancellation of Treasury Shares	(19,250)	(44,105)	-	(6,121)	(50,226)	-	(88,408)	(88,408)	-	-	(88,408)	-	-	-	-	-	-	157,884	-						
D1	Net Income in 2018	-	-	-	-	-	-	257,357	257,357	-	-	257,357	-	-	-	-	-	-	-	257,357						
D3	Other Comprehensive Income (Loss) for the Year Ended December 31, 2018	-	-	-	-	-	-	-	-	94,258	-	-	-	-	-	94,258	-	(12,322)	-	81,936						
D5	Total Comprehensive Income (Loss) for the Year Ended December 31, 2018	-	-	-	-	-	-	257,357	257,357	94,258	-	257,357	-	-	94,258	-	(12,322)	-	-	339,293						
Z1	BALANCE, DECEMBER 31, 2018	597,731	1,376,724	79,636	-	1,456,360	67,693	754,229	821,922	49,699	-	821,922	67,693	754,229	821,922	49,699	-	(4,813)	-	2,920,899						
B5	Appropriation of 2018 Earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-						
	Cash Dividends	-	-	-	-	-	-	(90,685)	(90,685)	-	-	(90,685)	-	-	-	-	-	-	-	(90,685)						
N1	Share-based Compensation	-	-	52,884	-	52,884	-	-	-	-	-	52,884	-	-	-	-	-	-	-	52,884						
K1	Issue of Ordinary Shares Under the Employee Share Options	8,398	43,702	(18,326)	-	25,376	-	-	-	-	-	25,376	-	-	-	-	-	-	-	33,774						
D1	Net Income in 2019	-	-	-	-	-	-	433,512	433,512	-	-	433,512	-	-	-	-	-	-	-	433,512						
D3	Other Comprehensive Income (Loss) for the Year Ended December 31, 2019	-	-	-	-	-	-	-	-	(82,215)	-	-	-	-	(82,215)	-	33,576	-	-	(48,639)						
D5	Total Comprehensive Income (Loss) for the Year Ended December 31, 2019	-	-	-	-	-	-	433,512	433,512	(82,215)	-	433,512	-	-	(82,215)	33,576	-	-	-	384,873						
Z1	BALANCE, DECEMBER 31, 2019	606,129	1,420,426	114,194	-	1,534,620	67,693	1,097,056	1,164,749	32,516	-	1,164,749	67,693	1,097,056	1,164,749	32,516	-	28,673	-	3,301,745						

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of U.S. Dollars)

Code		Capital Surplus				Retained Earnings			Total	Exchange Differences on Translating Foreign Operations (\$)	Other Equity			Total Equity
		Share Capital	Share Premium	Share Options	Treasury Shares	Share Options	Special Reserve	Unappropriated Earnings			Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Treasury Shares	
A1	BALANCE, JANUARY 1, 2018	\$ 19,129	\$ 43,795	\$ 1,688	\$ 199	\$ 45,682	\$ 2,799	\$ 24,021	\$ 26,820	\$ 267	\$ 153	\$ -	\$ -	\$ 91,211
A3	Effects of Retrospective Application	-	-	-	-	(443)	(443)	(443)	(443)	-	153	317	-	27
A5	Adjusted Balance, January 1, 2018	19,129	43,795	1,688	199	45,682	2,799	23,578	26,377	267	-	317	-	91,238
B5	Appropriation of 2017 Earnings	-	-	-	-	-	-	(2,135)	(2,135)	-	-	-	-	(2,135)
N1	Cash Dividends	-	-	-	-	-	-	(2,135)	(2,135)	-	-	-	-	(2,135)
N1	Share-based Compensation	-	-	1,581	-	1,581	-	-	-	-	-	-	-	1,581
K1	Issue of Ordinary Shares Under the Employee Share Options	236	1,831	(691)	-	1,140	-	-	-	-	-	-	-	1,376
L1	Buy-back of Treasury Shares	-	-	-	-	-	-	-	-	-	-	-	(5,124)	(5,124)
L3	Cancellation of Treasury Shares	(604)	(1,416)	-	(199)	(1,615)	-	(2,905)	(2,905)	-	-	-	5,124	-
D1	Net Income in 2018	-	-	-	-	-	-	8,536	8,536	-	-	-	-	8,536
D3	Other Comprehensive Income (Loss) for the Year Ended December 31, 2018	-	-	-	-	-	-	-	-	32	-	(408)	-	(376)
D5	Total Comprehensive Income (Loss) for the Year Ended December 31, 2018	-	-	-	-	-	-	8,536	8,536	32	-	(408)	-	8,160
Z1	BALANCE, DECEMBER 31, 2018	18,761	44,210	2,578	-	46,788	2,799	27,074	29,873	235	-	(91)	-	95,096
B5	Appropriation of 2018 Earnings	-	-	-	-	-	-	(2,915)	(2,915)	-	-	-	-	(2,915)
N1	Cash Dividends	-	-	-	-	-	-	(2,915)	(2,915)	-	-	-	-	(2,915)
N1	Share-based Compensation	-	-	1,711	-	1,711	-	-	-	-	-	-	-	1,711
K1	Issue of Ordinary Shares Under the Employee Share Options	273	1,418	(593)	-	825	-	-	-	-	-	-	-	1,098
D1	Net Income in 2019	-	-	-	-	-	-	14,024	14,024	-	-	-	-	14,024
D3	Other Comprehensive Income (Loss) for the Year Ended December 31, 2019	-	-	-	-	-	-	-	-	32	-	1,086	-	1,118
D5	Total Comprehensive Income (Loss) for the Year Ended December 31, 2019	-	-	-	-	-	-	14,024	14,024	32	-	1,086	-	15,142
Z1	BALANCE, DECEMBER 31, 2019	\$ 19,034	\$ 45,628	\$ 3,696	\$ -	\$ 49,324	\$ 2,799	\$ 38,183	\$ 40,982	\$ 203	\$ -	\$ 995	\$ -	\$ 110,152

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of U.S. Dollars and New Taiwan Dollars)

Code		2019		2018	
		US\$	NT\$	US\$	NT\$
	CASH FLOWS FROM OPERATING ACTIVITIES				
A10000	Income Before Income Tax	\$ 16,993	\$ 525,283	\$ 11,105	\$ 334,805
A20010	Adjustments For:				
A20100	Depreciation and Amortization	30,045	928,748	26,072	786,037
A20300	Expected Credit Losses				
	Impairment loss(reversed) on trade receivables	1,467	45,350	1,434	43,248
A20900	Interest Expenses	146	4,516	30	891
A21200	Interest Income	(1,840)	(56,840)	(1,535)	(46,286)
A21900	Share-based Compensation	1,711	52,884	1,581	47,675
A22500	Loss on Disposal of Equipment	3	90	16	491
A23100	Net Loss on Disposal of Financial Assets	9	271	69	2,072
A23800	(Reversal of) Write-down of Inventories	(503)	(15,556)	618	18,627
A24100	Net (Gain) Loss on Foreign Currency Exchange	(237)	(7,352)	227	6,854
A29900	Amortization of Prepayments	3,246	100,327	2,995	90,290
A30000	Net Changes in Operating Assets and Liabilities				
A31150	Accounts Receivable	(9,289)	(287,130)	(7,834)	(236,204)
A31180	Other Receivables	(351)	(10,846)	(49)	(1,478)
A31200	Inventories	(9,738)	(301,019)	(7,743)	(233,414)
A31230	Prepayments	(2,362)	(73,019)	(3,652)	(110,098)
A31240	Other Current Assets	(777)	(24,055)	(231)	(6,952)
A32125	Contract Liabilities	15,530	480,063	9,817	295,980
A32150	Accounts Payable	8,546	264,157	2,850	85,937
A32180	Other Payables	4,292	132,664	7	253
A32230	Other Current Liabilities	227	7,023	(341)	(10,279)
A32990	Deferred Revenue	149	4,600	584	17,614
A33000	Cash Generated from Operations	52,267	1,770,159	36,020	1,086,063
A33300	Interest Paid	(133)	(4,118)	(35)	(1,069)
A33500	Income Tax Paid	(3,291)	(101,662)	(2,167)	(65,374)
AAAA	Net Cash Generated from Operating Activities	<u>53,843</u>	<u>1,664,379</u>	<u>33,818</u>	<u>1,019,620</u>
	CASH FLOWS FROM INVESTING ACTIVITIES				
B00010	Acquisition of Financial Assets at Fair Value through Other Comprehensive Income Acquired	(4,702)	(145,374)	(633)	(19,081)
B00020	Proceeds from Disposal of Financial Assets at Fair Value Through Other Comprehensive Income	1,232	38,068	5,894	177,693
B00040	Acquisition of Financial Assets at Amortized Cost	(11,797)	(364,660)	(23,287)	(702,085)
B00050	Proceeds from Disposal of Financial Assets at Amortized Cost	31,384	970,139	3,700	111,551

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Code		2019		2018	
		US\$	NT\$	US\$	NT\$
B02700	Payments for Property, Plants, and Equipment	(16,518)	(510,604)	(23,628)	(712,420)
B02800	Proceeds from Disposal of Property, Plants, and Equipment	-	6	-	7
B03700	Decrease(Increase) in Refundable Deposits	(5)	(154)	32	987
B04500	Payments for Intangible Assets	(11,420)	(352,973)	(5,068)	(152,801)
B07500	Interest Received	<u>2,296</u>	<u>71,003</u>	<u>1,250</u>	<u>37,700</u>
BBBB	Net Cash Used in Investing Activities	(<u>9,530</u>)	(<u>294,549</u>)	(<u>41,740</u>)	(<u>1,258,449</u>)
CASH FLOWS FROM FINANCING ACTIVITIES					
C00100	Increase(Decrease)Short-term Borrowing	500	15,456	(1,414)	(42,624)
C04020	Repayment of Lease	(1,132)	(34,991)	-	-
C04500	Cash Dividends	(2,915)	(90,685)	(2,135)	(64,008)
C04800	Proceeds from Exercise of Employee Share Options	1,098	33,774	1,376	40,570
C04900	Payments for Buy-back of Ordinary Shares	<u>-</u>	<u>-</u>	(<u>5,124</u>)	(<u>157,884</u>)
CCCC	Net Cash Used in Financing Activities	(<u>2,449</u>)	(<u>76,446</u>)	(<u>7,297</u>)	(<u>223,946</u>)
DDDD	EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>247</u>	(<u>58,247</u>)	(<u>87</u>)	<u>42,797</u>
EEEE	NET INCREASE(DECREASE)IN CASH AND CASH EQUIVALENTS	42,111	1,235,137	(15,306)	(419,978)
E00100	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>37,184</u>	<u>1,142,113</u>	<u>52,490</u>	<u>1,562,091</u>
E00200	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 79,295</u>	<u>\$2,377,250</u>	<u>\$ 37,184</u>	<u>\$1,142,113</u>

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of US Dollars and New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Alchip Technologies, Limited (the Company) was incorporated in the Cayman Islands on February 27, 2003. The Company is mainly engaged in the research and development, design, and manufacture of fabless application specific integrated circuits (ASIC) and system on a chip (SoC) and the rendering of related services.

The Company's shares have been listed on the Taiwan Stock Exchange (TWSE) since October 28, 2014.

2. APPROVAL OF STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the Company) were approved by the Company's Board of Directors and authorized for issue on March 6, 2020.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the FSC.

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Company's accounting policies:

IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 "Lease", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", and a number of related interpretation, refer to Note 4 for information relating to the relevant accounting policies.

Definition of Lease

The Company elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and

IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Company as Lessee

The Company recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liability; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principle portion of lease liability and cash payments for the interest portion were classified within financing activities and operating activities respectively. Prior to the application of IFRS 16, payments for operating lease contracts were recognized as expenses on a straight-line basis. Cash flow for operating leases were classified within the operating activities on the consolidated statements of cash flows.

The Company elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019.. Right-of-use assets are measured at the amount equal to the carrying value of lease liabilities (adjusted by the amount of any prepaid or accrued lease payments). The Company applies IAS 36 to all right-of-use assets.

The Company also applies the following practical expedients:

- 1) The Company applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Company accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Company excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Company uses hindsight, such as in determining lease terms, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 3.58%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 146,898
Less: Recognition exemption for short-term leases	<u>(7,913)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 138,985</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 129,674
Add: Adjustments as a result of a different treatment of extension options	<u>9,154</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 138,828</u>

The Company as Lessor

The Company does not make any adjustments for leases in which it is a lessor, and accounts for those leases under IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use Assets	\$ -	\$ 140,206	\$ 140,206
Other Non-current Assets	<u>16,326</u>	<u>(1,378)</u>	<u>14,948</u>
Total Effect on Assets	<u>\$ 16,326</u>	<u>\$ 138,828</u>	<u>\$ 155,154</u>
Lease Liabilities - Current	\$ -	\$ 34,096	\$ 34,096
Lease Liabilities - Non-current	<u>-</u>	<u>104,732</u>	<u>104,732</u>
Total Effect on Liabilities	<u>\$ -</u>	<u>\$ 138,828</u>	<u>\$ 138,828</u>

- b. The IFRSs issued by International Accounting Standards Board (IASB) and endorsed by the FSC from the starting day of 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Company shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020..

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020

Amendments to IFRS 3 “Definition of a Business”

The amendments require that to be considered a business, anacquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. To judge whether the acquired process is substantive, there will be different judgement requirements depending on whether there is output on the acquisition date.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of above standards and interpretations will have on the Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

c. The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current	January 1, 2022

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of above standards and interpretations will have on the Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs as endorsed and issued into effect by the FSC.

Basics of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

The functional currencies of the Company are U.S. dollars and Japanese yen. For greater comparability and consistency of financial reporting, the consolidated financial statements are presented in New Taiwan dollars since the Company's shares are listed on the Taiwan Stock Exchange. The assets and liabilities items are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period, the equity items are translated at the historical exchange rates, and the income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in exchange differences on translating foreign operations.

Classification of Current and Non-current Assets and Liabilities

Current Assets Include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within twelve months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current Liabilities Include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within twelve months after the reporting period;
and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). Adjustments have been made to the financial statements of subsidiaries to bring their accounting policies to be consistent with those used by the Company. All intercompany transactions, balance, income and expenses are eliminated in full upon consolidation. For subsidiaries' details, percentage of ownership, and main businesses and products, see Note 12, Table 5 and Table 6 to the consolidated financial statements.

Foreign Currencies

In preparing the financial statements of each individual Company entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect to which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company are translated into New Taiwan Dollar using exchange rates prevailing at the end of each reporting period. Income and expense items are translated

at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income. The exchange differences accumulated in equity which resulted from the translation of assets and liabilities into the presentation currency are not subsequently reclassified to profit and loss.

Inventories

Inventories include raw materials, materials, finished products, and works in progress and are stated at the lower of cost or net realizable value. Inventories write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventory are recorded at weighted average cost on the balance sheet dated.

Property, Plants, and Equipment

Property, plants, and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Depreciation is recognized based on the straight-line basis. Each significant part is depreciated separately. . The Company reviews the estimated useful lives, residual values, and depreciation method at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant, or equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Intangible Assets

Intangible assets separately acquired with finite useful lives are initially measured at the cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss from the cost. Amortization is recognized on a straight-line basis . The estimated useful lives, residual values, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable

amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when a Company entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss

Financial Assets

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

Financial assets are classified into the following categories: financial assets at amortized cost and investments in debt instruments at FVTOCI.

1) Financial assets at amortized cost

Financial assets that satisfy the following two conditions are measured at amortized cost:

- i. Financial assets are held within a business model whose objective is to collect contractual cash flows; and

- ii. The contractual terms of financial assets give rise on specified dates that cash flows are solely payments of principal and interest on principal outstanding.

Subsequent to the initial recognition, financial assets at the amortized cost (including the cash and cash equivalents, accounts receivable, other receivables, and pledged time deposits) are measured at amortized cost, which equals gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Cash equivalents include time deposits with original maturities within three months from the date of acquisition, high liquidity, readily convertible to a known amount of cash, and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Investments in debt instrument at FVTOCI

Investments in debt instruments that satisfy the following two conditions are measured at financial assets at FVTOCI:

- i. Financial assets are held within a business model whose objective is to collect contractual cash flows and sell financial assets; and
- ii. The contractual terms of financial assets give rise on specified dates that cash flows are solely payments of principal and interest on principal outstanding.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment gains or losses on investments in debt instruments at FVTOCI are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when these debt instruments are disposed.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable) and investments in debt instruments measured at FVTOCI at the end of each reporting period.

The loss allowance for accounts receivable is measured at lifetime expected credit loss. For other financial assets, the Company recognizes lifetime expected credit losses when there have been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial assets have not increased significantly since initial recognition, the Company measures the loss allowance of the financial assets at an amount equal to 12-month expected credit losses.

Expected credit losses reflect the weighted average of credit loss with the respective risks of default occurring. Lifetime expected credit losses represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month expected credit losses represent the portion of lifetime expected credit losses that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in the other comprehensive income and does not reduce the carrying amount of the financial assets.

Revenue Recognition

The Company identifies the contract performance obligations and recognizes revenue when all of the contract performance obligations are satisfied.

a. Revenue from sales of goods

The Company recognizes revenue and accounts receivable when promised goods are delivered to the customer's specified location, customer obtains control of goods and performance obligation is satisfied.

b. Revenue from rendering of non-recurring engineering (NRE) service

The Company provides NRE service which does not create assets of other purposes to the Company, and the Company has the executable rights on the receivables for the completed contract performance, the revenue is recognized when service is provided. NRE service measures its level of completeness based on the output method and milestones achieved.

Leases

2019

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

- a. The Company as the lessor
Lease income from operating leases is recognized on a straight-line basis over the lease term.
- b. The Company as the lessee
The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, or a change in future lease payments resulting from a change in a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

- a. The Company as the lessor
Lease income from operating leases is recognized on a straight-line basis over the lease term.

b. The Company as the lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Government Grants

Government grants are recognized when there is a reasonable assurance that the Company is able to comply with the conditions specified and that the grants is received.

Government grants that are receivables as compensation for relevant cost already incurred are recognized in profit or loss in the period in which cost is recognized as expenses. Government grants whose primary condition is the Company should purchase, construct or otherwise acquire noncurrent assets are recognized as deferred income, and transferred deferred income to profit and loss over the useful lives of related assets..

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Post-employment benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Share-based Payment Arrangements

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vesting immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

According to the Income Tax law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward, and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Impairment of equipment and intangible assets

The impairment of equipment and intangible assets in relation to the design and production of chips is based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to a recognition of additional or a reversal of impairment losses.

6. CASH AND CASH EQUIVALENTS

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>NT\$</u>		
Demand Deposits	\$ 2,365,883	\$ 716,405
Time Deposits with Original Maturities Within Three Months from the Date of Acquisition	-	399,295
Checking Accounts	10,985	25,562
Petty Cash	<u>382</u>	<u>851</u>
	<u>\$ 2,377,250</u>	<u>\$ 1,142,113</u>
<u>US\$</u>		
Demand Deposits	\$ 78,915	\$ 23,324
Time Deposits with Original Maturities Within Three Months from the Date of Acquisition	-	13,000
Checking Accounts	366	832
Petty Cash	<u>14</u>	<u>28</u>
	<u>\$ 79,295</u>	<u>\$ 37,184</u>

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Bank Balance	0.01%~1.90%	0.01%~2.93%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Current</u>		
<u>NT\$</u>		
Foreign Bonds Investments	<u>\$ 103,208</u>	<u>\$ 20,889</u>
<u>US\$</u>		
Foreign Bonds Investments	<u>\$ 3,443</u>	<u>\$ 680</u>
<u>Non-current</u>		
<u>NT\$</u>		
Foreign Bonds Investments	<u>\$ 354,372</u>	<u>\$ 318,809</u>
<u>US\$</u>		
Foreign Bonds Investments	<u>\$ 11,820</u>	<u>\$ 10,380</u>

Foreign corporate bonds obtained by the Company for the year ended December 31, 2019 was as follows:

<u>Company Name</u>	<u>Coupon Rate</u>	<u>Effective Rate</u>	<u>Period</u>
CNAC (HK) SYNBRIDGE COMPANY	5%	3.99%	3
ICICI BANK LIMITED	3.5%	3.59%	5.5
KOREA AIR LINES CO LTD	5.88%	5.23%	3
ROYAL BANK	3.88%/6.13%	4.24%/4.18%	10
VEDANTA RESOURCES PLC	6.38%	6.74%	5.5
VIRGIN AUSTRALIA HOLDINGS LTD	7.88%	6.13%	5

Refer to Note 9 for information on credit risk management and impairment assessment related to financial assets at FVTOCI.

8. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Current</u>		
<u>NT\$</u>		
Time Deposits with Original Maturities Exceeding Three Months from the Date of Acquisition	\$ -	\$ 460,725
Other Debt Instruments	-	140,896
Less: Loss Allowance	<u>-</u>	<u>(56)</u>
	<u>\$ -</u>	<u>\$ 601,565</u>
 <u>US\$</u>		
Time Deposits with Original Maturities Exceeding Three Months from the Date of Acquisition	\$ -	\$ 15,000
Other Debt Instruments	-	4,587
Less: Loss Allowance	<u>-</u>	<u>(2)</u>
	<u>\$ -</u>	<u>\$ 19,585</u>

Refer to Note 9 for information on credit risk management and impairment loss assessment related to financial assets at amortized cost.

9. CREDIT RISK MANAGEMENT OF DEBT INSTRUMENTS

The investments in debt instrument are classified to the financial assets at FVTOCI and Financial Assets at amortized cost respectively.

Year ended December 31, 2019

	<u>Financial Assets at FVTOCI</u>		<u>Financial Assets at Amortized Cost</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
Total Carrying Amount	\$ 484,330	\$ 16,155	\$ -	\$ -
Loss Allowance	<u>(56,603)</u>	<u>(1,888)</u>	<u>-</u>	<u>-</u>
Amortized Cost	427,727	14,267	<u>\$ -</u>	<u>\$ -</u>
Fair Value Adjustment	<u>29,853</u>	<u>996</u>		
	<u>\$ 457,580</u>	<u>\$ 15,263</u>		

Year ended December 31, 2018

	<u>Financial Assets at FVTOCI</u>		<u>Financial Assets at Amortized Cost</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
Total Carrying Amount	\$ 392,509	\$ 12,780	\$ 601,621	\$ 19,587
Loss Allowance	<u>(50,033)</u>	<u>(1,629)</u>	<u>(56)</u>	<u>(2)</u>
Amortized Cost	342,476	11,151	<u>\$ 601,565</u>	<u>\$ 19,585</u>
Fair Value Adjustment	<u>(2,778)</u>	<u>(91)</u>		
	<u>\$ 339,698</u>	<u>\$ 11,060</u>		

The Company obtains credit rating information provided by an independent credit rating agency (CRA) in order to continuously track and supervise the credit risk change of the investments in debt instrument. At the same time, the Company reviews the information of bond yield rate curve, debtor material information, and etc. to assess whether the credit risk of investments in debt instrument has significantly increased since the initial recognition.

The Company considers the historical loss given default (LGD) of each level provided by CRA, the current financial status of the debtor, and its business outlook prediction in order to measure the 12-month expected credit loss or lifetime expected credit loss of the investments in debt instrument. The current credit risk rating mechanism used by the Company is as follows:

Credit Rating	Definition	Expected Credit Loss Recognition Basis
Normal	The credit risk of debtor is low, and it has sufficient ability to repay the contractual cash flow, i.e. the Moody's rating is above Level B.	12-month Expected Credit Loss Rate
Abnormal	The credit risk has significantly increased since the initial recognition, i.e. the Moody's rating has moved from above Level B to below Level B.	Lifetime Expected Credit Loss (expected credit loss increases but no credit impairment)
Default	Credit impairment evidence already available	Lifetime Expected Credit Loss (with credit impairment)
Write-off	There is evidence indicating that the debtor is under severe financial difficulty and repayment cannot be reasonably expected.	Write-off

Year ended December 31, 2019

Credit Rating	Expected Credit Loss Rate	Total Carrying Amount	
		Financial Assets at FVTOCI	
		NT\$	US\$
Normal	0.1%~2.06%	\$ 430,313	\$ 14,353
Abnormal	-	-	-
Default	100%	54,017	1,802
Write-off	-	-	-

Year ended December 31, 2018

Credit Rating	Expected Credit Loss Rate	Total Carrying Amount			
		Financial Assets at FVTOCI		Financial Assets at Amortized Cost	
		NT\$	US\$	NT\$	US\$
Normal	0%~2.14%	\$ 337,168	\$ 10,978	\$ 601,621	\$ 19,587
Abnormal	-	-	-	-	-
Default	65.08%~100%	55,341	1,802	-	-
Write-off	-	-	-	-	-

Regarding the investments in debt instrument of financial assets at FVTOCI and amortized cost, the loss allowance change information based on the credit risk rating is summarized as follows:

	Credit Rating		
	Normal	Abnormal	Default
<u>NT\$</u>			
Balance on January 1, 2019	\$ 3,348	\$ -	\$ 46,741
Purchase of New Debt Instrument	1,379	-	-
Derecognition	(171)	-	-
Risk Index Change(Note)	-	-	8,632
Exchange Rate and Other Changes	(1,970)	-	(1,356)
Balance on December 31, 2019	<u>\$ 2,586</u>	<u>\$ -</u>	<u>\$ 54,017</u>
Balance on January 1, 2018	\$ 6,478	\$ -	\$ -
Credit Rating Change			
- Normal to Default (Note)	(1,207)	-	47,404
Purchase of New Debt Instrument	119	-	-
Derecognition	(668)	-	-
Exchange Rate and Other Changes	(1,374)	-	(663)
Balance on December 31, 2018	<u>\$ 3,348</u>	<u>\$ -</u>	<u>\$ 46,741</u>
<u>US\$</u>			
Balance on January 1, 2019	\$ 109	\$ -	\$ 1,522
Purchase of New Debt Instrument	45	-	-
Derecognition	(6)	-	-
Risk Index Change(Note)	-	-	280
Exchange Rate and Other Changes	(62)	-	-
Balance on December 31, 2019	<u>\$ 86</u>	<u>\$ -</u>	<u>\$ 1,802</u>
Balance on January 1, 2018	\$ 218	\$ -	\$ -
Credit Rating Change			
- Normal to Default (Note)	(40)	-	1,585
Purchase of New Debt Instrument	4	-	-
Derecognition	(22)	-	-
Exchange Rate and Other Changes	(51)	-	(63)
Balance on December 31, 2018	<u>\$ 109</u>	<u>\$ -</u>	<u>\$ 1,522</u>

Note: For the bonds issued by China Energy Reserve and Chemicals Group Overseas Capital Company Limited and matured in May, 2018, due to the principle was failed to be paid upon maturity, the credit rating was changed to default from normal resulting the increase of loss allowance for default by NT\$29,915 thousand (US\$1,000 thousand). For the bonds issued by China Energy Reserve and Chemicals Group International Holding Limited that matured in November 2019, due to the interest payment was suspended from the first quarter of 2019 and principle was failed to be paid upon maturity, the credit rating was changed to default from normal resulting the increase of loss allowance for default by NT\$26,121 thousand (US\$865 thousand).

10. ACCOUNTS RECEIVABLE

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>NT\$</u>		
<u>Accounts Receivable</u>		
Total Carrying Amount at		
Amortized Cost	\$938,391	\$676,344
Less: Loss Allowance	(<u>40,276</u>)	(<u>5,606</u>)
	<u>\$898,115</u>	<u>\$670,738</u>
<u>US\$</u>		
<u>Accounts Receivable</u>		
Total Carrying Amount at		
Amortized Cost	\$ 31,300	\$ 22,019
Less: Loss Allowance	(<u>1,343</u>)	(<u>182</u>)
	<u>\$ 29,957</u>	<u>\$ 21,837</u>

The payment term granted to customers is 30 days to 90 days according to the factors of customers' financial conditions and historical payment records. In addition, when it is considered necessary, customers are requested to make pre-payments in order to reduce the risk of financial loss due to delay of payment.

The Company measures the loss allowance for accounts receivables at an amount equal to lifetime expected credit losses. The lifetime expected credit losses are estimated using a provision matrix by reference to the past default records of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors and an assessment of all the gross domestic product growth rates, unemployment rates and industrial indicators at the reporting date. The Company determines expected credit loss ratio by the factors including payment term, country of customers and the status of public listing or non public listing.

In the event there is an evidence indicating that the customer is under severe financial difficulty and the Company cannot reasonably estimate the recoverable amounts, the Company writes off relevant accounts receivable. However, the Company continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, the recoverable amounts are recognized in profit or loss.

Aging analysis of accounts receivable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>NT\$</u>		
0-60 Days	\$ 649,064	\$ 445,994
61-120 Days	188,514	179,539
More Than and Including 121 Days	<u>100,813</u>	<u>50,811</u>
TOTAL	<u>\$ 938,391</u>	<u>\$ 676,344</u>

<u>US\$</u>		
0-60 Days	\$ 21,650	\$ 14,520
61-120 Days	6,288	5,845
More Than and Including 121 Days	<u>3,362</u>	<u>1,654</u>
TOTAL	<u>\$ 31,300</u>	<u>\$ 22,019</u>

The movements of the loss allowance for accounts receivable was as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>NT\$</u>		
Balance at January 1,2019	\$ 5,606	\$ 5,456
Less: CreditImpairment Losses (Reversed)	35,887	(24)
Foreign Exchange Translation Gains and Losses	(1,217)	<u>174</u>
Balance at December 31,2019	<u>\$ 40,276</u>	<u>\$ 5,606</u>
<u>US\$</u>		
Balance at January 1,2019	\$ 182	\$ 183
Less: CreditImpairment Losses (Reversed)	<u>1,161</u>	(<u>1</u>)
Balance at December 31,2019	<u>\$ 1,343</u>	<u>\$ 182</u>

11. INVENTORIES

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>NT\$</u>		
Finished Products	\$ 91,077	\$ 7,770
Work in Progress	482,923	267,433
Raw Materials	<u>7,577</u>	<u>6,075</u>
	<u>\$581,577</u>	<u>\$281,278</u>
<u>US\$</u>		
Finished Products	\$ 3,038	\$ 253
Work in Progress	16,108	8,707
Raw Materials	<u>253</u>	<u>198</u>
	<u>\$ 19,399</u>	<u>\$ 9,158</u>

The cost of chip inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 were NT\$1,967,680 thousand (US\$63,654 thousand) and NT\$1,561,849 thousand (US\$51,804 thousand), respectively.

The cost of goods sold included reversals of inventory write-downs of NT\$15,556 (US\$503 thousand) and inventory write-downs of NT\$18,627 thousand (US\$618 thousand) for the year ended December 31, 2019 and 2018, respectively. The reversals of inventory net realizable value for the year ended December 31, 2019 was due to the decrease of inventory write-down for the year ended December 31, 2018 which resulting the increase of overall inventory net realizable value.

12. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

Investor	Subsidiary	Nature of Business	Percentage of Ownership (%)		Description
			2019 December 31	2018 December 31	
The Company	Alchip Technologies, Limited (registered in Hong Kong) (referred to as "Alchip HK")	Investments	100%	100%	—
	AlChip Technologies, Inc. (registered in the U.S.A.) (referred to as "Alchip USA")	Sales of ASIC and SOC.	100%	100%	—
	Alchip Technologies, KK (registered in Japan) (referred to as "Alchip KK")	Sales of ASIC and SOC.	100%	100%	—
	Alchip Technologies, Inc. (registered in Taiwan) ("Al-chip TW")	Provide ASIC and SOC services.	100%	100%	—
	Alchip Investment, Inc. (registered in the British Virgin Islands) (referred to as "Alchip BVI")	Investments	100%	100%	—
	Alchip HK	Alchip Technologies (Shanghai) (registered in China) (referred to as "Alchip Shanghai")	Research and development, design, and sales of ASIC and SOC and rendering of related services.	100%	100%
Alchip Technologies (Wuxi) (registered in China) (referred to as "Alchip Wuxi")		Research and development and design of ASIC and SOC and rendering of related services.	100%	100%	—
Alchip Technologies (Hefei) (registered in China) (referred to as "Alchip Hefei")		Research and development and design of ASIC and SOC and rendering of related services.	100%	100%	—
Alchip Technologies Jinan (registered in China) (referred to as "Alchip Jinan")		Research and development and design of ASIC and SOC and rendering of related services.	100%	100%	—

b. Subsidiaries excluded from the consolidated financial statements: None.

13. PROPERTY, PLANTS AND EQUIPMENT

	Machinery Equipment	Computer Equipment	Office Equipment	Leasehold Improvements	Transportation Equipment	Total
<u>NTS</u>						
<u>Cost</u>						
Balance January 1, 2018	\$ 1,843,401	\$ 126,117	\$ 15,258	\$ 32,262	\$ 6,758	\$ 2,023,796
Addition	660,282	13,507	2,110	10,110	-	686,009
Disposals	(160,489)	(4,383)	(171)	(6,737)	-	(171,780)
Effect of Foreign Currency Exchange Differences	68,539	6,903	602	1,099	217	77,360
Balance December 31, 2018	<u>\$ 2,411,733</u>	<u>\$ 142,144</u>	<u>\$ 17,799</u>	<u>\$ 36,734</u>	<u>\$ 6,975</u>	<u>\$ 2,615,385</u>
<u>Accumulated Depreciation</u>						
Balance January 1, 2018	(\$ 1,648,179)	(\$ 78,457)	(\$ 6,750)	(\$ 19,778)	(\$ 1,306)	(\$ 1,754,470)
Depreciation	(620,878)	(16,619)	(2,609)	(6,083)	(1,232)	(647,421)
Disposals	160,489	3,914	142	6,737	-	171,282
Effect of Foreign Currency Exchange Differences	(61,534)	(5,438)	(281)	(622)	(65)	(67,940)
Balance December 31, 2018	<u>(\$ 2,170,102)</u>	<u>(\$ 96,600)</u>	<u>(\$ 9,498)</u>	<u>(\$ 19,746)</u>	<u>(\$ 2,603)</u>	<u>(\$ 2,298,549)</u>
Carrying Amounts at December 31, 2018	<u>\$ 241,631</u>	<u>\$ 45,544</u>	<u>\$ 8,301</u>	<u>\$ 16,988</u>	<u>\$ 4,372</u>	<u>\$ 316,836</u>
<u>Cost</u>						
Balance January 1, 2019	\$ 2,411,733	\$ 142,144	\$ 17,799	\$ 36,734	\$ 6,975	\$ 2,615,385
Addition	521,336	12,940	674	-	-	534,950
Disposals	-	(1,342)	(288)	-	-	(1,630)
Effect of Foreign Currency Exchange Differences	(73,430)	(3,615)	365	(879)	(167)	(78,456)
Balance December 31, 2019	<u>\$ 2,859,639</u>	<u>\$ 150,127</u>	<u>\$ 17,820</u>	<u>\$ 35,855</u>	<u>\$ 6,808</u>	<u>\$ 3,070,249</u>
<u>Accumulated Depreciation</u>						
Balance January 1, 2019	(\$ 2,170,102)	(\$ 96,600)	(\$ 9,498)	(\$ 19,746)	(\$ 2,603)	(\$ 2,298,549)
Depreciation	(423,885)	(16,101)	(2,557)	(8,526)	(1,178)	(452,247)
Disposals	-	1,280	254	-	-	1,534
Effect of Foreign Currency Exchange Differences	64,710	2,626	272	729	98	68,435
Balance December 31, 2019	<u>(\$ 2,529,277)</u>	<u>(\$ 108,795)</u>	<u>(\$ 11,529)</u>	<u>(\$ 27,543)</u>	<u>(\$ 3,683)</u>	<u>(\$ 2,680,827)</u>
Carrying Amounts at December 31, 2019	<u>\$ 330,362</u>	<u>\$ 41,332</u>	<u>\$ 6,291</u>	<u>\$ 8,312</u>	<u>\$ 3,125</u>	<u>\$ 389,422</u>

<u>US\$</u>						
<u>Cost</u>						
Balance January 1, 2018	\$ 61,942	\$ 4,332	\$ 515	\$ 1,083	\$ 228	\$ 68,100
Addition	21,901	448	70	335	-	22,754
Disposals	(5,323)	(145)	(6)	(223)	-	(5,697)
Effect of Foreign Currency Exchange Differences	-	(8)	-	1	(1)	(8)
Balance December 31, 2018	<u>\$ 78,520</u>	<u>\$ 4,627</u>	<u>\$ 579</u>	<u>\$ 1,196</u>	<u>\$ 227</u>	<u>\$ 85,149</u>
<u>Accumulated Depreciation</u>						
Balance January 1, 2018	(\$ 55,381)	(\$ 2,730)	(\$ 229)	(\$ 664)	(\$ 46)	(\$ 59,050)
Depreciation	(20,593)	(551)	(87)	(202)	(41)	(21,474)
Disposals	5,323	130	5	223	-	5,681
Effect of Foreign Currency Exchange Differences	(1)	6	2	-	2	9
Balance December 31, 2018	<u>(\$ 70,652)</u>	<u>(\$ 3,145)</u>	<u>(\$ 309)</u>	<u>(\$ 643)</u>	<u>(\$ 85)</u>	<u>(\$ 74,834)</u>
Carrying Amounts at December 31, 2018	<u>\$ 7,868</u>	<u>\$ 1,482</u>	<u>\$ 270</u>	<u>\$ 553</u>	<u>\$ 142</u>	<u>\$ 10,315</u>
<u>Cost</u>						
Balance January 1, 2019	\$ 78,520	\$ 4,627	\$ 579	\$ 1,196	\$ 227	\$ 85,149
Addition	16,865	419	22	-	-	17,306
Disposals	-	(43)	(9)	-	-	(52)
Effect of Foreign Currency Exchange Differences	-	3	2	-	-	5
Balance December 31, 2019	<u>\$ 95,385</u>	<u>\$ 5,006</u>	<u>\$ 594</u>	<u>\$ 1,196</u>	<u>\$ 227</u>	<u>\$ 102,408</u>
<u>Accumulated Depreciation</u>						
Balance January 1, 2019	(\$ 70,652)	(\$ 3,145)	(\$ 309)	(\$ 643)	(\$ 85)	(\$ 74,834)
Depreciation	(13,712)	(521)	(83)	(276)	(38)	(14,630)
Disposals	-	41	8	-	-	49
Effect of Foreign Currency Exchange Differences	1	(4)	(1)	-	-	(4)
Balance December 31, 2019	<u>(\$ 84,363)</u>	<u>(\$ 3,629)</u>	<u>(\$ 385)</u>	<u>(\$ 919)</u>	<u>(\$ 123)</u>	<u>(\$ 89,419)</u>
Carrying Amounts at December 31, 2019	<u>\$ 11,022</u>	<u>\$ 1,377</u>	<u>\$ 209</u>	<u>\$ 277</u>	<u>\$ 104</u>	<u>\$ 12,989</u>

The above items of property, plants, and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Machinery Equipment	1-5 Years
Computer Equipment	3-5 Years
Office Equipment	3-5 Years
Leasehold Improvements	3-5 Years
Transportation Equipment	5 Years

14. LEASE AGREEMENTS

a. Right-of-use assets – 2019

	December 31, 2019	
	NT\$	US\$
Carrying Amounts		
Buildings	\$ 109,923	\$ 3,667
Transportation Equipment	<u>162</u>	<u>5</u>
	<u>\$ 110,085</u>	<u>\$ 3,672</u>
Depreciation		
Buildings	\$ 37,365	\$ 1,209
Transportation Equipment	<u>167</u>	<u>5</u>
	<u>\$ 37,532</u>	<u>\$ 1,214</u>

b. Lease liabilities – 2019

	December 31, 2019	
	NT\$	US\$
Carrying Amounts		
Buildings	<u>\$ 37,692</u>	<u>\$ 1,257</u>
Transportation Equipment	<u>\$ 73,689</u>	<u>\$ 2,458</u>

Lease liabilities discount rate:

	December 31, 2019
Buildings	0.98%~5.50%
Transportation Equipment	3.00%

c. Material lease-in activities and terms

The Company leases buildings for the use of offices with lease terms of 2 to 5 years. The Company does not have bargain purchase options to acquire the buildings at the end of the lease terms.

d. Other lease information2019

	December 31, 2019	
	NT\$	US\$
Expenses relating to short-term leases	<u>\$ 11,254</u>	<u>\$ 364</u>
Total cash outflow for leases	<u>(\$ 50,363)</u>	<u>(\$ 1,629)</u>

The Company leases certain buildings and parking spaces which qualify as short-term leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31, 2018	
	NT\$	US\$
<u>NT\$</u>		
Not later than 1 year	\$ 42,371	\$ 1,380
Later than 1 year and not later than 5 years	<u>104,527</u>	<u>3,403</u>
	<u>\$ 146,898</u>	<u>\$ 4,783</u>

15. INTANGIBLE ASSETS

	Silicon Intellectual Property (SIP)	Software Cost	Total
<u>NT\$</u>			
<u>Cost</u>			
Balance January 1, 2018	\$ 745,727	\$ 13,313	\$ 759,040
Additions	193,293	1,046	194,339
Effect of Foreign Currency Exchange Differences	<u>20,132</u>	<u>447</u>	<u>20,579</u>
Balance December 31, 2018	<u>\$ 959,152</u>	<u>\$ 14,806</u>	<u>\$ 973,958</u>
<u>Accumulated Amortization</u>			
Balance January 1, 2018	(\$ 659,113)	(\$ 12,735)	(\$ 671,848)
Amortization	(138,144)	(472)	(138,616)
Effect of Foreign Currency Exchange Differences	<u>(16,318)</u>	<u>(417)</u>	<u>(16,735)</u>
Balance December 31, 2018	<u>(\$ 813,575)</u>	<u>(\$ 13,624)</u>	<u>(\$ 827,199)</u>
Carrying Amounts at December 31, 2018	<u>\$ 145,577</u>	<u>\$ 1,182</u>	<u>\$ 146,759</u>
<u>Cost</u>			
Balance January 1, 2019	\$ 959,152	\$ 14,806	\$ 973,958
Additions	513,864	5,845	519,709
Disposals	793	-	(793)
Effect of Foreign Currency Exchange Differences	<u>(38,421)</u>	<u>(531)</u>	<u>(38,952)</u>
Balance December 31, 2019	<u>\$ 1,433,802</u>	<u>\$ 20,120</u>	<u>\$ 1,453,922</u>
<u>Accumulated Amortization</u>			
Balance January 1, 2019	(\$ 813,575)	(\$ 13,624)	(\$ 827,199)
Amortization	(437,901)	(1,068)	(438,969)
Disposals	793	-	793
Effect of Foreign Currency Exchange Differences	<u>32,648</u>	<u>358</u>	<u>33,006</u>
Balance December 31, 2019	<u>(\$ 1,218,035)</u>	<u>(\$ 14,334)</u>	<u>(\$ 1,232,369)</u>
Carrying Amounts at December 31, 2019	<u>\$ 215,767</u>	<u>\$ 5,786</u>	<u>\$ 221,553</u>
<u>US\$</u>			
<u>Cost</u>			
Balance January 1, 2018	\$ 24,818	\$ 446	\$ 25,264
Additions	<u>6,411</u>	<u>35</u>	<u>6,446</u>
Effect of Foreign Currency Exchange Differences	<u>\$ 31,229</u>	<u>\$ 481</u>	<u>\$ 31,710</u>
<u>Accumulated Amortization</u>			
Balance January 1, 2018	(\$ 21,906)	(\$ 428)	(\$ 22,334)
Amortization	<u>(4,582)</u>	<u>(16)</u>	<u>(4,598)</u>
Balance December 31, 2018	<u>(\$ 26,488)</u>	<u>(\$ 444)</u>	<u>(\$ 26,932)</u>
Carrying Amounts at December 31, 2018	<u>\$ 4,741</u>	<u>\$ 37</u>	<u>\$ 4,778</u>
<u>Cost</u>			
Balance January 1, 2019	\$ 31,229	\$ 481	\$ 31,710
Additions	16,624	189	16,813
Disposals	<u>(26)</u>	<u>-</u>	<u>(26)</u>
Balance December 31, 2019	<u>\$ 47,827</u>	<u>\$ 670</u>	<u>\$ 48,497</u>

<u>Accumulated Amortization</u>			
Balance January 1, 2019	(\$ 26,488)	(\$ 444)	(\$ 26,932)
Amortization	(14,166)	(35)	(14,201)
Disposals	<u>26</u>	<u>-</u>	<u>26</u>
Balance December 31, 2019	(<u>\$ 40,628</u>)	(<u>\$ 479</u>)	(<u>\$ 41,107</u>)
Carrying Amounts at December 31, 2019	<u>\$ 7,199</u>	<u>\$ 191</u>	<u>\$ 7,390</u>

The above items of intangible assets were depreciated on a straight-line basis over the estimated useful lives as follows:

Silicon Intellectual Property (SIP)	1-3 Years
Software Cost	3-5 Years

16. PREPAYMENTS

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>NT\$</u>		
Prepayment for Electronic Design Automation (EDA) Tools	\$ 31,932	\$ 65,348
Prepayment for SIP	28,353	41,925
Prepayment for Raw Materials	9,242	7,703
Others	<u>13,344</u>	<u>9,938</u>
	<u>\$ 82,871</u>	<u>\$124,914</u>
<u>US\$</u>		
Prepayment for Electronic Design Automation (EDA) Tools	\$ 1,065	\$ 2,128
Prepayment for SIP	946	1,365
Prepayment for Raw Materials	308	251
Others	<u>445</u>	<u>323</u>
	<u>\$ 2,764</u>	<u>\$ 4,067</u>

17. SHORT TERM BORROWING

Loans were financed from Morgan Stanley Asia International Limited, Singapore Branch with Open Fed Fund+110bps borrowing rate (interest rate range were between 1.25% to 4.73% and 2.61% to 2.98% for the years ended December 31, 2019 and 2018, respectively). Net assets in Morgan Stanley account (bond values minus loan amount) are required to be higher than minimum margin requirement. As of December 31, 2019, net assets in the account was NT\$314,931 thousand (US\$10,505 thousand) higher than the minimum margin requirement.

18. OTHER PAYABLES

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>NT\$</u>		
Payables for Salaries and Bonuses	\$201,427	\$108,824
Payables for SIP	180,338	31,964
Payables for Technical Services	20,688	27,883
Payables for Professional Services	6,564	7,434
Payables for Software	14,199	921
Payables for Sales Tax	110	3,756
Payables for Purchase of Equipment	23,845	206
Others	<u>27,726</u>	<u>23,718</u>
	<u>\$474,897</u>	<u>\$204,706</u>
<u>US\$</u>		
Payables for Salaries and Bonuses	\$ 6,719	\$ 3,543
Payables for SIP	6,015	1,041
Payables for Technical Services	690	908
Payables for Professional Services	219	242
Payables for Software	474	30
Payables for Sales Tax	4	122
Payables for Purchase of Equipment	795	7
Others	<u>924</u>	<u>772</u>
	<u>\$ 15,840</u>	<u>\$ 6,665</u>

19. RETIREMENT BENEFITS PLANS

Defined Contribution Plans

Alchip TW and the Alchip Taiwan Branch adopted a pension plan under the Labor Pension Act (the LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Subsidiaries in the People's Republic of China and Japan take part in the defined contribution pension plans operated by the local governments, to which the subsidiaries make monthly contributions.

20. EQUITY

a. Share Capital

Ordinary Shares

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Number of Shares Authorized (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares Authorized (NT\$)	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of Shares Issued and Fully Paid (in thousands)	<u>60,613</u>	<u>59,773</u>
Shares Issued		
NT\$	<u>\$ 606,129</u>	<u>\$ 597,731</u>
US\$	<u>\$ 19,034</u>	<u>\$ 18,761</u>

Fully paid ordinary shares, which have a par value per share of NT\$10, carry one vote per share and carry one right to dividends. The change of share capital was mainly due to the execution of employee stock option and cancellation of treasury stocks.

b. Retained Earnings and Dividend Policy

According to the dividend policy as set forth in the Articles of Incorporation, the Company's annual net income after tax shall offset its losses in previous years, then set aside a special reserve in accordance with the Applicable Public Company Rules or as requested by the authorities in charge, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends to shareholders. For the policy on the distribution of employees' compensation and directors' remuneration specified in the Articles of Incorporation, refer to Note 24-(6) Employees' Compensation and Directors' Remuneration.

The Company's Articles of Incorporation also stipulate a dividend policy that distribution of retained earnings may proceed by way of cash or share dividends, but the cash dividend to be distributed shall be no lower than 10% of the aggregate dividend distributed to shareholders and no more than 100% of the aggregate dividend distributed to shareholders.

The appropriation of earnings for 2018 and 2017 was approved through the resolution of the ordinary shareholders' meeting on June 21, 2019 and May 30, 2018

		2018			
		Appropriation of Earnings (In Thousands)		Dividends Per Share (In Dollars)	
		US\$	NT\$	US\$	NT\$
Cash Dividends		\$ 2,915	\$ 90,685	\$ 0.049	\$ 1.516
		2017			
		Appropriation of Earnings (In Thousands)		Dividends Per Share (In Dollars)	
		US\$	NT\$	US\$	NT\$
Cash Dividends		\$ 2,135	\$ 64,008	\$ 0.035	\$ 1.049

The appropriation of earnings for 2019 is proposed by Company's board of directors on March 6, 2020.

		2019			
		Appropriation of Earnings (In Thousands)		Dividends Per Share (In Dollars)	
		US\$	NT\$	US\$	NT\$
Cash Dividends		\$ 7,216	\$ 216,384	\$ 0.119	\$ 3.570

The appropriation of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 11, 2020.

c. Special Reserve

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

The increase in retained earnings that resulted from all IFRSs adjustments was NT\$63,380 thousand (US\$3,221 thousand). Special reserve from cumulative translation adjustments at the first-time adoption of IFRSs was NT\$67,693 thousand (around US\$2,799 thousand). As of December 31, 2019, the amounts of the special reserve remained unchanged.

21. SHARE BASED PAYMENT AGREEMENTS

Employee Share Option Plan of the Company and Subsidiaries

According to the Company's Employee Share Option Plan, each option entitles the holder to subscribe for 1,000 ordinary shares of the Company. The qualified employee includes employees of the Company and its subsidiaries satisfying specific requirements. The option granted are valid for 10 years and exercisable at 50% after second anniversary from the grant date, and one-fourth thereof be received annually for subsequent years. The option were granted at an exercise price equal to the closing price of the Company's ordinary shares listed on the Taiwan Stock Exchange on the grant date. After the options are granted, upon the occurrence of certain events relating to the change in the number of common shares or a distribution of cash dividend for common shares where the amount distributed per share to the market price of each share exceeds 1.5%, the exercise price of each option shall be subject to adjustment in accordance with the specific formula. The Company's annual general meeting, held on June 21, 2019, resolved to distribute cash dividend at NT\$1.516 (US\$0.049) per share by the appropriation of earnings. The Company's board meeting, held on August 2, 2019, resolved the ex-dividend date on August 22, 2019. Due to cash dividend per share to the market price of each share exceeds 1.5%, the exercise price of each option was adjusted in accordance with the specific formula and announced on August 7, 2019.

Information on employee share options as follows:

Employee Share Option	2019		2018	
	Number of Options	Weighted-average Exercise Price (US\$)	Number of Options	Weighted-average Exercise Price (US\$)
Balance at January 1	5,963,413	\$ 2.17	4,985,473	\$ 1.59
Options Granted	1,700,000	3.07	1,874,000	3.60
Options Exercised	(839,834)	1.31	(697,060)	1.97
Options Expired	(618,188)	2.08	(199,000)	1.84
Balance at December 31	<u>6,205,391</u>	2.46	<u>5,963,413</u>	2.18
Options Exercisable, End of Year	<u>1,763,391</u>	1.53	<u>1,386,413</u>	1.35
Weighted-Average Fair Value of Options granted(US\$)	<u>\$ 1.61</u>		<u>\$ 1.84</u>	

December 31, 2019		December 31, 2018	
Exercise Price (US\$)	Weighted-average Remaining Contractual Life (Years)	Exercise Price (US\$)	Weighted-average Remaining Contractual Life (Years)
\$ 0.79	6.87	\$ 0.80	7.87
1.18	6.18	1.19	7.18
1.31	7.19	1.34	8.19
1.79	5.32	1.81	6.32
2.36	9.39	2.51	0.91
2.38	9.22	2.60	8.93
2.44	7.93	2.82	8.92
2.47	0.19	2.88	9.73
2.64	7.92	3.31	9.11
2.78	8.73	3.36	9.02
3.03	8.11	4.02	9.62
3.04	9.61	4.11	9.25
3.10	8.02	4.28	9.30
3.74	8.25		
3.86	8.62		
3.93	8.30		
6.11	9.86		
6.75	9.90		

Options granted in 2019 and 2018 were priced by Black-Scholes pricing model and the inputs to the model on each grant-date were as follows:

	November 22,2019	November 7,2019	August 7,2019	May 20,2019	March 19,2019
Grant-date Share Price(NT\$)	206	185.5	97.20	75.60	76.30
Exercise Price(NT\$)	206	185.5	97.20	75.60	76.30
Expected Volatility	54.05%	53.78%	53.45%	53.97%	54.35%
Expected Life(years)	6~7	6~7	6~7	6~7	6~7
Expected Dividend Yield	-	-	-	-	-
Risk-Free Interest Rate	0.62%~0.64%	0.62%~0.65%	0.60%~0.62%	0.63%~0.66%	0.69%~0.72%

	September 20, 2018	August 10, 2018	April 18, 2018	March 30, 2018	February 7, 2018	January 5, 2018
Grant-date Share Price(NT\$)	88.80	123.50	125.50	119.50	96.90	99.20
Exercise Price(NT\$)	88.80	123.50	125.50	119.50	96.90	99.20
Expected Volatility	54.28%	53.47%	53.39%	53.41%	52.68%	51.92%
Expected Life(years)	6~7	6~7	6~7	6~7	6~7	6~7
Expected Dividend Yield	-	-	-	-	-	-
Risk-Free Interest Rate	0.77%~0.80%	0.75%~0.77%	0.79%~0.85%	0.78%~0.84%	0.77%~0.85%	0.75%~0.82%

Compensation cost recognized was NT\$52,884 thousand (US\$1,711 thousand) and NT\$47,675 thousand (US\$1,581 thousand) for the years ended December 31, 2019 and 2018, respectively.

22. GOVERNMENT GRANTS

The Company's subsidiary, Alchip Technologies (Hefei), signed a financial support fund agreement entitled "Advanced Soc Chip Design and Service Platform" with Hefei High-tech Industrial Development Area Merchants (the "Merchants") in April 2017. The term of the agreement was from January 2017 to December 2018. According to the agreement, the subsidiary shall receive the grants prior to the assessment. The grants (with additional interest) will be repayable on demand if there is any breach of the agreement. The performance indicators set out in the agreement are as follows:

a. Investment Projects

- 1) Investments in fixed assets shall amount to RMB 20 million.
- 2) R&D investments shall amount to RMB 60 million during the period.

b. Innovation Output

The cumulative number of patent applications shall not be less than 6 for the year ended December 31, 2018.

The grant amounting to NT\$43,738 thousand (US\$1,459 thousand) was received and recognized as deferred revenue for the year ended December 31, 2019 due to the Merchant having not yet performed the review of application.

The Company's subsidiary, Alchip Technologies (Hefei) received subsidy of NT\$40,830 thousand (US\$1,321 thousand) in the year ended December 31, 2019 due to the purchases of Silicon Intellectual Property (SIP), and was recognized as income over the estimated useful lives of the SIP.

23. REVENUE

a. Contract Balance

The change in the contract liability balances was mainly due to the timing difference between the satisfaction of performance obligation and the customer's payment. The Company recognized NT\$232,865 thousand (US\$7,533 thousand) and NT\$14,075 thousand (US\$471 thousand) as revenue from the beginning of contract liability for the year ended of December 31, 2019 and 2018.

b. Revenue from Contracts with Customers

	2019		2018	
	NT\$	US\$	NT\$	US\$
<u>Product</u>				
ASIC and Chip				
Production	\$4,314,253	\$ 139,566	\$3,302,059	\$ 109,525
NRE	13,372	433	30,720	1,019
Others	4,331	139	117,899	3,910
	<u>\$4,331,956</u>	<u>\$ 140,138</u>	<u>\$3,450,678</u>	<u>\$ 114,454</u>
<u>Geography</u>				
China	\$2,611,565	\$ 84,484	\$1,577,129	\$ 52,311
Japan	758,097	24,524	1,320,636	43,804
United States	644,164	20,839	45,572	1,512
Taiwan	260,117	8,415	211,552	7,017
Europe	53,608	1,734	183,574	6,089
Others	4,405	142	112,215	3,721
	<u>\$4,331,956</u>	<u>\$ 140,138</u>	<u>\$3,450,678</u>	<u>\$ 114,454</u>
<u>Application Type</u>				
High Performance				
Computing	\$2,590,962	\$ 83,817	\$1,053,531	\$ 34,944
Niche Market	796,781	25,776	1,408,311	46,712
Communication	558,504	18,067	460,743	15,282
Consumer	385,709	12,478	528,093	17,516
	<u>\$4,331,956</u>	<u>\$ 140,138</u>	<u>\$3,450,678</u>	<u>\$ 114,454</u>
<u>Resolution</u>				
7- nanometer	\$ 860,374	\$ 27,833	\$ 595,533	\$ 19,753
12- nanometer	315,520	10,207	409,876	13,595
16- nanometer	1,427,610	46,183	726,741	24,105
28- nanometer	1,253,914	40,564	1,051,176	34,866
40- nanometer	264,483	8,556	310,294	10,292
Above 55-				
nanometer	205,445	6,646	240,740	7,985
Others	4,610	149	116,318	3,858
	<u>\$4,331,956</u>	<u>\$ 140,138</u>	<u>\$3,450,678</u>	<u>\$ 114,454</u>

24. NET PROFIT(LOSS)

Net profit (loss) included the following items

a. Other Income

	<u>2019</u>	<u>2018</u>
<u>NT\$</u>		
Interest Income	\$ 56,840	\$ 46,286
Government Grants	45,186	14,575
Others	988	2,726
	<u>\$ 103,014</u>	<u>\$ 63,587</u>
 <u>US\$</u>		
Interest Income	\$ 1,840	\$ 1,535
Government Grants	1,462	483
Others	30	91
	<u>\$ 3,332</u>	<u>\$ 2,109</u>

b. Other Gains and Losses

	<u>2019</u>	<u>2018</u>
<u>NT\$</u>		
Net Foreign Exchange Gains (losses)	\$ 2,479	(\$ 3,694)
Investment In Debt Instrument at FVTOCI	(271)	(2,072)
Loss on Disposal of Equipment	(90)	(491)
Others	(88)	(287)
	<u>\$ 2,030</u>	<u>(\$ 6,544)</u>
 <u>US\$</u>		
Net Foreign Exchange Gains (losses)	\$ 81	(\$ 122)
Investment In Debt Instrument at FVTOCI	(9)	(69)
Loss on Disposal of Equipment	(3)	(16)
Others	(3)	(10)
	<u>\$ 66</u>	<u>(\$ 217)</u>

c. Finance costs

	<u>2019</u>	<u>2018</u>
<u>NT\$</u>		
Interest on lease liabilities	\$ 4,118	\$ -
Interest on short-term loan	398	891
	<u>\$ 4,516</u>	<u>\$ 891</u>
 <u>US\$</u>		
Interest on lease liabilities	\$ 133	\$ -
Interest on short-term loan	13	30
	<u>\$ 146</u>	<u>\$ 30</u>

d. Depreciation and Amortization

	<u>2019</u>	<u>2018</u>
<u>NT\$</u>		
Property, Plants, and		
Equipment	\$ 452,247	\$ 647,421
Right-of-use Asset	37,532	-
Intangible Assets	<u>438,969</u>	<u>138,616</u>
	<u>\$ 928,748</u>	<u>\$ 786,037</u>
Depreciation Expenses by		
Function		
Operating Costs	\$ 421,823	\$ 618,403
Operating Expenses	<u>67,956</u>	<u>29,018</u>
	<u>\$ 489,779</u>	<u>\$ 647,421</u>
Amortization Expenses by		
Function		
Operating Costs	\$ 437,980	\$ 138,189
Operating Expenses	<u>989</u>	<u>427</u>
	<u>\$ 438,969</u>	<u>\$ 138,616</u>
<u>US\$</u>		
Property, Plants, and		
Equipment	\$ 14,630	\$ 21,474
Right-of-use Asset	1,214	-
Intangible Assets	<u>14,201</u>	<u>4,598</u>
	<u>\$ 30,045</u>	<u>\$ 26,072</u>
Depreciation Expenses by		
Function		
Operating Costs	\$ 13,646	\$ 20,512
Operating Expenses	<u>2,198</u>	<u>962</u>
	<u>\$ 15,844</u>	<u>\$ 21,474</u>
Amortization Expenses by		
Function		
Operating Costs	\$ 14,169	\$ 4,584
Operating Expenses	<u>32</u>	<u>14</u>
	<u>\$ 14,201</u>	<u>\$ 4,598</u>

e. Employee Benefits Expenses

	<u>2019</u>	<u>2018</u>
<u>NT\$</u>		
Post-employment Benefit		
(Note 19)		
Defined Contribution		
Plans	\$ 41,887	\$ 42,170
Share-based Payments		
(Note 21)	52,884	47,675
Other Employee Benefits	<u>711,575</u>	<u>600,664</u>
	<u>\$ 806,346</u>	<u>\$ 690,509</u>

	2019	2018
Employee Benefits Expenses by Function		
Operating Costs	\$ 11,748	\$ 10,923
Operating Expenses	<u>794,598</u>	<u>679,586</u>
	<u>\$ 806,346</u>	<u>\$ 690,509</u>
<u>US\$</u>		
Post-employment Benefit (Note 19)		
Defined Contribution Plans	\$ 1,354	\$ 1,399
Share-based Payments (Note 21)	1,711	1,581
Other Employee Benefits	<u>23,019</u>	<u>19,923</u>
	<u>\$ 26,084</u>	<u>\$ 22,903</u>
Employee Benefits Expenses by Function		
Operating Costs	\$ 379	\$ 361
Operating Expenses	<u>25,705</u>	<u>22,542</u>
	<u>\$ 26,084</u>	<u>\$ 22,903</u>

f. Employees' Compensation and Remuneration of Directors

According to the Articles of Incorporation, the Company accrued employees' compensation and remuneration of directors at the rates of no less than 1% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for 2019 and 2018 approved by the Company's Board of Directors were as follows:

	Accrual Rate	2019	
		Cash (US\$)	Cash (NT\$)
Employees' Compensation	8%	\$ 1,510	\$ 46,692
Remuneration of Directors	2%	<u>378</u>	<u>11,673</u>
		<u>\$ 1,888</u>	<u>\$ 58,365</u>
		2018	
	Accrual Rate	Cash (US\$)	Cash (NT\$)
Employees' Compensation	8%	\$ 986	\$ 29,739
Remuneration of Directors	2%	<u>247</u>	<u>7,435</u>
		<u>\$ 1,233</u>	<u>\$ 37,174</u>
Recognized in Financial Report		<u>\$ 1,233</u>	<u>\$ 37,174</u>

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

Information on the employees' compensation and remuneration of directors resolved by the Company's Board of Directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

25. INCOME TAX

a. Income tax expenses recognized in profit or loss consisted of the following:

	2019		2018	
	US\$	NT\$	US\$	NT\$
Current Income Tax				
Tax Expense				
Recognized in				
Current Period	\$ 2,762	\$ 85,372	\$ 2,803	\$ 84,495
Adjustments on				
Prior Years	(130)	(4,032)	27	828
	<u>2,632</u>	<u>81,340</u>	<u>2,830</u>	<u>85,323</u>
Deferred Income Tax				
Tax Expense				
Recognized in				
Current Period	337	10,431	(164)	(4,951)
Effect of Tax Rate				
Changes	-	-	(97)	(2,924)
	<u>337</u>	<u>10,431</u>	<u>(261)</u>	<u>(7,875)</u>
Income Tax Expense				
Recognized in				
Profit or Loss	<u>\$ 2,969</u>	<u>\$ 91,771</u>	<u>\$ 2,569</u>	<u>\$ 77,448</u>

A reconciliation of income before income tax and income tax expense recognized in profit or loss was as follows:

	2019		2018	
	US\$	NT\$	US\$	NT\$
Income Before Tax	\$ 16,993	\$ 525,283	\$ 11,105	\$ 334,805
Income Tax Expense				
At the Statutory				
Rate	3,050	94,284	2,244	67,640
Nondeductible Tax				
Expenses	(117)	(3,608)	26	796
Unrecognized Tax				
Losses and				
Temporary				
Differences	166	5,127	369	11,108
Tax Rate Change	-	-	(97)	(2,924)
Adjustments on Prior				
Years	(130)	(4,032)	27	828
Income Tax Expense				
Recognized in				
Profit or Loss	<u>\$ 2,969</u>	<u>\$ 91,771</u>	<u>\$ 2,569</u>	<u>\$ 77,448</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20% and effective from 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%. Alchip Shanghai was approved for preferential tax treatment in November 2018, a treatment that allows Alchip Shanghai to be entitled to a preferential tax rate of 15% from 2019 to 2021. The applicable tax rate used by the Company's subsidiary located in Japan was approximately 37%.

b. Deferred Tax Assets

The movements of deferred tax assets were as follows:

Year Ended December 31, 2019

NT\$

Deferred Tax Assets	Balance, Beginning of Year	Recognized in Profit or Loss	Exchange Rate Changes	Balance, End of Year
Temporary Differences				
Write-down of Inventory	\$ 14,512	(\$ 3,111)	(\$ 254)	\$ 11,147
Unrealized Exchange Gain or Loss	<u>385</u>	<u>1,715</u>	<u>(62)</u>	<u>2,068</u>
	14,897	(1,366)	(316)	13,215
Net Loss Carryforwards	<u>19,992</u>	<u>(6,527)</u>	<u>(280)</u>	<u>13,185</u>
	<u>\$ 34,889</u>	<u>(\$ 7,893)</u>	<u>(\$ 596)</u>	<u>\$ 26,400</u>

Deferred Tax Liabilities	Balance, Beginning of Year	Recognized in Profit or Loss	Exchange Rate Changes	Balance, End of Year
Temporary Differences				
Intangible Assets	<u>\$ 9,986</u>	<u>\$ 2,538</u>	<u>(\$ 315)</u>	<u>\$ 12,209</u>

US\$

Deferred Tax Assets	Balance, Beginning of Year	Recognized in Profit or Loss	Exchange Rate Changes	Balance, End of Year
Temporary Differences				
Write-down of Inventory	\$ 472	(\$ 100)	\$ -	\$ 372
Unrealized Exchange Gain or Loss	<u>13</u>	<u>56</u>	<u>-</u>	<u>69</u>
	485	(44)	-	441
Net Loss Carryforwards	<u>651</u>	<u>(211)</u>	<u>-</u>	<u>440</u>
	<u>\$ 1,136</u>	<u>(\$ 255)</u>	<u>\$ -</u>	<u>\$ 881</u>

Deferred Tax Liabilities	Balance, Beginning of Year	Recognized in Profit or Loss	Exchange Rate Changes	Balance, End of Year
Temporary Differences				
Intangible Assets	\$ 325	\$ 82	\$ -	\$ 407

Year Ended December 31, 2018

NT\$

Deferred Tax Assets	Balance, Beginning of Year	Recognized in Profit or Loss	Exchange Rate Changes	Balance, End of Year
Temporary Differences				
Write-down of Inventory	\$ 9,366	\$ 4,755	\$ 391	\$ 14,512
Unrealized Exchange Gain or Loss	<u>1,082</u>	<u>(718)</u>	<u>21</u>	<u>385</u>
	10,448	4,037	412	14,897
Net Loss Carryforwards	<u>5,907</u>	<u>13,640</u>	<u>445</u>	<u>19,992</u>
	<u>\$ 16,355</u>	<u>\$ 17,677</u>	<u>\$ 857</u>	<u>\$ 34,889</u>

Deferred Tax Liabilities	Balance, Beginning of Year	Recognized in Profit or Loss	Exchange Rate Changes	Balance, End of Year
Temporary Differences				
Intangible Assets	\$ -	\$ 9,802	\$ 184	\$ 9,986

US\$

Deferred Tax Assets	Balance, Beginning of Year	Recognized in Profit or Loss	Exchange Rate Changes	Balance, End of Year
Temporary Differences				
Write-down of Inventory	\$ 316	\$ 156	\$ -	\$ 472
Unrealized Exchange Gain or Loss	<u>36</u>	<u>(23)</u>	<u>-</u>	<u>13</u>
	352	133	-	485
Net Loss Carryforwards	<u>198</u>	<u>453</u>	<u>-</u>	<u>651</u>
	<u>\$ 550</u>	<u>\$ 586</u>	<u>\$ -</u>	<u>\$ 1,136</u>

Deferred Tax Liabilities	Balance, Beginning of Year	Recognized in Profit or Loss	Exchange Rate Changes	Balance, End of Year
Temporary Differences				
Intangible Assets	\$ -	\$ 325	\$ -	\$ 325

c. Income Tax Assessments

Tax returns of Alchip Technologies Inc. and Alchip Taiwan Branch through 2018 have been assessed by the tax authorities. No significant difference between the assessment results and the income tax returns filed.

26. EARNINGS PER SHARE

	Unit: US\$/NT\$ Per Share			
	2019		2018	
	US\$	NT\$	US\$	NT\$
Basic EPS	<u>\$ 0.23</u>	<u>\$ 7.20</u>	<u>\$ 0.14</u>	<u>\$ 4.22</u>
Diluted EPS	<u>\$ 0.22</u>	<u>\$ 6.89</u>	<u>\$ 0.13</u>	<u>\$ 4.03</u>

EPS is computed as follows:

	2019		2018	
	US\$	NT\$	US\$	NT\$
<u>Net Income</u>				
Net Income available to Common Shareholder	<u>\$ 14,024</u>	<u>\$ 433,512</u>	<u>\$ 8,536</u>	<u>\$ 257,357</u>
Earnings Used in the Computation of Basic and Diluted EPS	<u>\$ 14,024</u>	<u>\$ 433,512</u>	<u>\$ 8,536</u>	<u>\$ 257,357</u>

	Unit: Thousand Shares	
	2019	2018
<u>Number of Shares</u>		
Weighted Average Number of Ordinary Shares in Computation of Basic EPS	60,176	61,039
Effect of potentially dilutive ordinary shares:		
Employee Share Option	2,477	2,365
Employees' Compensation or Bonus Issue to Employees	<u>267</u>	<u>482</u>
Weighted Average Number of Ordinary Shares in Computation of Diluted EPS	<u>62,920</u>	<u>63,886</u>

If the Company settles employees' compensation in cash or shares, the Company assumes the entire amount of the compensation will be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

27. CAPITAL MANAGEMENT

The Company is a fabless application specific circuit provider and expects significant capital expenditure on the purchase of machinery equipment and SIP now and in the near future. Accordingly, the Company's objective is to maintain necessary operating capital, the availability of funds for research and development, the capacity to pay dividends, etc. Compliance with conservative policy, the Company prudently evaluates the policy of capital management on a continuous basis..

28. FINANCIAL INSTRUMENTS

a. Fair Value of Financial Instruments that are not Measured at Fair Value

The Company considers that the book value of financial assets and liabilities that are not measured at fair value are close to fair value. Accordingly, the Company takes the book value of those financial assets and liabilities on the consolidated balance sheet as the basis for evaluating the fair value.

b. Fair Value of Financial Instruments that are Measured at Fair Value on a Recurring Basis

1) Fair Value Hierarchy

The Company's financial instruments measured at fair value are financial assets at FVTOCI. Based on the extent that fair value can be observed, the fair value measurements are grouped in Level 2.

2) Valuation Techniques and Inputs Applied for the Purpose of Measuring Level 2 Fair Value

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Foreign Bonds Investment	Adjusted integration of quoted prices or settlement prices from stock exchange market participants for each corporate bond.

There was no transfer of fair value measurements between Level 1 and Level 2 for the year ended December 31, 2019 and 2018.

c. Categories of Financial Instrument

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>NT\$</u>		
<u>Financial Assets</u>		
Financial Assets at Amortized Cost (Note 1)	\$ 3,310,165	\$ 2,436,860
Financial Assets at FVTOCI-Debt Instrument	457,580	339,698
<u>Financial Liabilities</u>		
Amortized Cost (Note 2)	703,891	227,860
<u>US\$</u>		
<u>Financial Assets</u>		
Financial Assets at Amortized Cost (Note 1)	110,413	79,336
Financial Assets at FVTOCI-Debt Instrument	15,263	11,060
<u>Financial Liabilities</u>		
Amortized Cost (Note 2)	23,478	7,419

Note 1: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, accounts receivable, and other receivables.

Note 2: The balances included the carrying amount of short-term loans, and accounts payable and other payables.

d. Financial Risk Management Objectives and Policies

The Company's financial instruments mainly includes debt instrument, accounts receivable, accounts payable, short-term loans and lease liabilities. The Company's financial department objective is to provide service for all business units, access and operate domestic and overseas financial market, monitor and manage financial risk associated with operating activities in accordance with relevant risk level and wide analysis. The financial risk includes market risk (including currency risk, interest rate risk and other risk), credit risk, and liquidity risk.

1) Market Risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (1) below) and interest rates (see (2) below).

a) Exchange Rate Risk

The Company uses USD and JPY as the functional currencies, and mainly possesses a small amount of other currency for the payment of employee salaries and operating expenses of each subsidiary (branch); therefore, there is no material exchange rate fluctuation risk. Since the Company is listed for trading on the Taiwan Stock Exchange, it can be expected that in the future, when dividends are issued to domestic investors in NTD or when funds are raised domestically in NTD such that the amount needs to be exchanged to USD for use, there is an exchange rate risk in the exchange of TWD to USD, and the possible responsive measures adopted by the financial department of the Company are as follows:

- i. Maintaining an adequate level of foreign currency reserve based on predicted exchange rate to provide for subsidiaries' operating activities and to lessen the impact on adverse exchange fluctuations to the net income;
- ii. Continuously monitoring exchange rate fluctuations and maintaining close relationships with principal correspondent banks to provide management with sufficient information as a basis for managing exchange rate fluctuations;
- iii. Reducing the impact of adverse exchange rate fluctuations on the Group's net income by using natural hedging (i.e. a majority of sales and

purchase transactions are denominated in USD) and by using foreign currency loans or forward exchange contracts when needed.

Refer to Note 30 for the carrying amounts of monetary assets and liabilities not denominated in functional currency at the end of the reporting period.

Sensitivity Analysis

The Company was mainly exposed to RMB, USD and NTD exchange rate fluctuation.

The following table describes the sensitivity analysis of the Company when USD and JPY (functional currencies) appreciate/depreciate 5% relative to the exchange rate of relevant foreign currencies. 5% refers to the sensitivity ratio used internally by the Company for reporting the exchange rate risk to the key management level, and it also refers to the assessment of the management level on the reasonable and possible fluctuation range of the currency exchange rate. The sensitivity analysis only includes the foreign currency monetary items circulating externally, and its translation at the end of year is adjusted based on the exchange rate change of 5%. The integers shown in the following table refer to the increased (decreased) amount of the net income before tax when USD and JPY (functional currencies) depreciates 5% relative to other relevant currencies. When USD and JPY appreciate 5% relative to relevant currencies, the impact on the net income before tax is the same amount but in a negative value.

	Unit: In Thousands of U.S. Dollars	
	Profit/Loss	
	2019	2018
RMB	\$ 40	\$ 37
USD	316	100
NTD	(58)	6

b) Interest Rate Risk

The Company was exposed to interest rate risk because entities in the Company borrowed funds at floating rate. The carrying amounts of the Company's financial assets and liabilities with exposure to interest rates at the end of reporting period are as follows:

	December 31, 2019	December 31, 2018
<u>NT\$</u>		
Fair Value Interest Rate Risk		
— Financial Assets	\$ 457,885	\$ 1,340,862
— Financial Liabilities	111,381	-
Cash Flow Interest Rate Risk		
— Financial Assets	2,365,883	716,405
— Financial Liabilities	15,496	-

<u>US\$</u>		
Fair Value Interest Rate Risk		
— Financial Assets	15,273	43,655
— Financial Liabilities	3,715	-
Cash Flow Interest Rate Risk		
— Financial Assets	78,915	23,324
— Financial Liabilities	517	-

The Company was also exposed to cash flow interest rate risk in relation to variable-rate financial institutions borrowings. The Company's cash flow interest rate risk was mainly concentrated in the fluctuation of the Open Fed Fund rate.

Sensitivity Analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2019 and 2018 would increase/decrease by NT\$5,876 thousand (US\$196 thousand) and increase/decrease NT\$1,791 thousand (US\$58 thousand), respectively.

2) Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. At the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation and financial guarantees provided by the Company could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Company adopted a policy of only dealing with credit worthy counterparties as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are reviewed and approved by the finance department periodically.

To minimize credit risk, the Company's management is responsible for the deformation of loan amount, loan approval, and other monitoring procedures in order to ensure that appropriate actions have been taken to recover the outstanding account receivables. In addition, at the end of the reporting period, the Company further performs a second review on the recoverable amount of the accounts receivable in order to ensure that the accounts receivable that cannot be recovered have been recognized as appropriate impairment loss. In view of the above, the management level of the Company believes that the credit risk of the Company is effectively reduced.

The credit risk on liquid funds was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Company's concentration of credit risk of 26% and 37% in total accounts receivable as of December 31, 2019 and 2018, respectively, was related to the Company's largest customer.

3) Liquidity Risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

a) Liquidity and Interest Risk Rate Tables

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables were drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The interest recognition is not material.

	December 31, 2019							
	NT\$				US\$			
	Less Than 1 Month	1 to 3 Months	3 Months to 1 Year	1-5 Years	Less Than 1 Month	1 to 3 Months	3 Months to 1 Year	1-5 Years
Non-interest-bearing Liabilities								
Accounts Payable	\$ 270,842	\$ 144,193	\$ -	\$ -	\$ 9,034	\$ 4,810	\$ -	\$ -
Other Payables	264,733	8,627	-	-	8,830	287	-	-
Variable Interest Rate Assets	-	-	15,496	-	-	-	517	-
	<u>\$ 535,575</u>	<u>\$ 152,820</u>	<u>\$ 15,496</u>	<u>\$ -</u>	<u>\$ 17,864</u>	<u>\$ 5,097</u>	<u>\$ 517</u>	<u>\$ -</u>

	December 31, 2018							
	NT\$				US\$			
	Less Than 1 Month	1 to 3 Months	3 Months to 1 Year	1-5 Years	Less Than 1 Month	1 to 3 Months	3 Months to 1 Year	1-5 Years
Non-interest-bearing Liabilities								
Accounts Payable	\$ 57,793	\$ 77,941	\$ -	\$ -	\$ 1,881	\$ 2,538	\$ -	\$ -
Other Payables	60,915	30,904	307	-	1,984	1,006	10	-
	<u>\$ 118,708</u>	<u>\$ 108,845</u>	<u>\$ 307</u>	<u>\$ -</u>	<u>\$ 3,865</u>	<u>\$ 3,544</u>	<u>\$ 10</u>	<u>\$ -</u>

b) Financing Facilities

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>NT\$</u>		
Secured Bank Loan Facilities:		
— Amount Used	\$ 15,496	\$ -
— Amount Unused	<u>734,004</u>	<u>767,875</u>
	<u>\$749,500</u>	<u>\$ 767,875</u>
<u>US\$</u>		
Secured Bank Loan Facilities:		
— Amount Used	\$ 517	\$ -
— Amount Unused	<u>24,483</u>	<u>25,000</u>
	<u>\$ 25,000</u>	<u>\$ 30,000</u>

For the restriction conditions of the borrowings described above, refer to Note 17.

29. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The total amount of compensation of directors and key management personnel is as follows.

	<u>2019</u>	<u>2018</u>
<u>NT\$</u>		
Other Employee Benefits	\$122,853	\$ 68,665
Share-based Payments	16,247	16,751
Post-employment Benefits	<u>822</u>	<u>985</u>
	<u>\$139,922</u>	<u>\$ 86,401</u>
<u>US\$</u>		
Other Employee Benefits	\$ 3,973	\$ 2,277
Share-based Payments	526	556
Post-employment Benefits	<u>27</u>	<u>33</u>
	<u>\$ 4,526</u>	<u>\$ 2,866</u>

The remuneration of directors and key executives was determined by the remuneration committee with regard to the performance of individuals and market trends.

30. EXCHANGE RATE INFORMATION OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information is a summary of the foreign currencies other than the functional currencies of each entity of the Company. The exchange rate disclosed refers to the exchange rate for exchanging such foreign currencies into the functional currencies. The significant financial assets and liabilities denominated in foreign currencies were as follows:

Year Ended December 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount (In Thousand US\$)
<u>Financial Assets</u>			
<u>Currency</u>			
RMB	\$ 23,975	0.143345 (RMB : USD)	\$ 3,437
USD	8,346	108.624810 (USD : JPY)	8,346
NTD	13,977	0.033356 (NTD : USD)	466
			\$ 12,249
<u>Financial Liabilities</u>			
<u>Currency</u>			
RMB	18,339	0.143345 (RMB : USD)	\$ 2,629
USD	2,036	108.624810 (USD : JPY)	2,036
NTD	48,862	0.033356 (NTD : USD)	1,630
			\$ 6,295

Year Ended December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount (In Thousand US\$)
<u>Financial Assets</u>			
<u>Currency</u>			
RMB	\$ 17,311	0.145705 (RMB : USD)	\$ 2,522
USD	5,343	110.411836 (USD : JPY)	5,343
NTD	7,204	0.032557 (NTD : USD)	235
			\$ 8,100
<u>Financial Liabilities</u>			
<u>Currency</u>			
RMB	12,204	0.145705 (RMB : USD)	\$ 1,778
USD	3,334	110.411836 (USD : JPY)	3,334
NTD	3,443	0.032557 (NTD : USD)	112
			\$ 5,224

The significant realized and unrealized foreign exchange gains (losses) were as follows:
(In Thousands of U.S. Dollars)

Foreign Currencies	2019		2018	
	Exchange Rate	Net Foreign Exchange Gain (Loss) (US\$ in Thousands)	Exchange Rate	Net Foreign Exchange Gain (Loss) (US\$ in Thousands)
RMB	0.1450(RMB: USD)	\$ 92	0.1512(RMB: USD)	(\$ 149)
USD	108.95620(USD: JPY)	(47)	110.4362(USD: JPY)	45
NTD	0.03235(NTD: USD)	39	0.03317(NTD: USD)	(7)
		<u>\$ 84</u>		<u>(\$ 111)</u>

31. SEPARATELY DISCLOSED ITEMS

a. Information About Significant Transactions and (II) Investees

- 1) Financing provided to others: None
- 2) Endorsements/guarantees provided: None
- 3) Marketable securities held: (Table 1)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
- 5) Acquisitions of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None
- 6) Disposals of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: (Table 2)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: (Table 3)
- 9) Trading in derivative instruments: None
- 10) Intercompany relationships and significant intercompany transactions: (Tables 4)
- 11) Information on investees: (Table 5)

b. Information on Investments in Mainland China:

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: (Table 6)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: Table 2

- a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
- b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
- c) The amount of property transactions and the amount of the resultant gains or losses.
- d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
- e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
- f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

32. SEGMENT INFORMATION

a. Operating Segment

The Company is engaged in research and development, design, and manufacturing of ASIC and SOC and provides related services. These activities are deemed single industry; accordingly, management considers the Company as having only one reportable segment.

b. Geographical Information

The Company operates in three principal geographical areas - Japan, Taiwan, and China.

The Company's revenue from continuing operations from external customers by location of operations and information about its non-current assets (excluding deferred income tax assets) by location of assets are detailed below.

(In Thousands of NT\$)

	Revenue from External Customers		Non-current Assets	
	December 31		December 31	
	2019	2018	2019	2018
China	\$ 2,611,565	\$ 1,577,129	\$ 182,801	\$ 91,076
Japan	758,097	1,320,636	12,830	7,750
United States	644,164	45,572	364	-
Taiwan	260,117	211,552	420,649	250,889
Europe	53,608	183,574	-	-
Others	4,405	112,215	473,775	449,015
	<u>\$ 4,331,956</u>	<u>\$ 3,450,678</u>	<u>\$ 1,090,419</u>	<u>\$ 798,730</u>

(In Thousands of US\$)

	Revenue from External Customers		Non-current Assets	
	December 31		December 31	
	2019	2018	2019	2018
China	\$ 84,484	\$ 52,311	\$ 6,097	\$ 2,965
Japan	24,524	43,804	428	252
United States	20,839	1,512	12	-
Taiwan	8,415	7,017	14,031	8,168
Europe	1,734	6,089	-	-
Others	142	3,721	15,803	14,620
	<u>\$ 140,138</u>	<u>\$ 114,454</u>	<u>\$ 36,371</u>	<u>\$ 26,005</u>

c. Major customers representing at least 10% of net revenue

Customer	2019			2018		
	US\$	NT\$	%	US\$	NT\$	%
Customer A	\$ 39,091	\$1,208,388	28	\$ 15,272	\$ 460,434	13
Customer B	26,443	817,391	19	10,979	331,015	10
Customer C	(Note)	(Note)	(Note)	16,553	499,045	14
Customer D	(Note)	(Note)	(Note)	15,385	463,834	13

Note: Revenue from the customer for the indicated period was less than 10% of the Company's revenue.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
MARKETABLE SECURITIES HELD

December 31, 2019

(In Thousands of New Taiwan Dollars)

TABLE 1

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	End of Period			Note	
				Shares (In Thousand)	Carrying Amount	Percentage of Ownership %		Fair Value
Alchip BVI	Corporate Bonds CNAC HK	-	Investments in Debt Instrument at FVTOCI - Current	1,000	\$ 30,213	-	\$ 30,213	-
	ICICI BANK	-	"	1,000	30,038	-	30,038	-
	BANCO BTG PACTUAL SA	-	"	1,000	29,994	-	29,994	-
	CHINA ENERGY RESERVE AND CHEMICALS GROUP OVERSEAS CAPITAL COMPANY LIMITED	-	"	1,000	7,435	-	7,435	-
	CHINA ENERGY RESERVE AND CHEMICALS GROUP INTERNATIONAL HOLDING LIMITED	-	"	800	5,528	-	5,528	-
	CENTURYLINK INC	-	Investments in Debt Instrument at FVTOCI - Non-current	1,000	31,603	-	31,603	-
	BPCE SA	-	"	1,000	32,951	-	32,951	-
	SPRINT CORP	-	"	1,000	32,346	-	32,346	-
	HUARONG FINANCE II CO LTD	-	"	1,000	33,020	-	33,020	-
	NORDDEUTSCHE LANDESBANK	-	"	2,000	62,530	-	62,530	-
	BANCO DO BRASIL	-	"	1,000	30,620	-	30,620	-
	CHINA CINDA FINANCE 2015 1 LTD	-	"	1,000	31,953	-	31,953	-
	KOREAN AIR	-	"	1,000	30,590	-	30,590	-
	VIRGIN AUSTRALIA HOLDINGS LTD	-	"	450	13,913	-	13,913	-
	VEDANTA RESOURCES PLC	-	"	450	13,286	-	13,286	-
	ROYAL BANK	-	"	300	9,372	-	9,372	-
	ROYAL BANK	-	"	400	13,124	-	13,124	-
	STANDARD CHARTERED PLC	-	"	600	19,064	-	19,064	-

Note: For the information on investments in subsidiaries, see Table 5 and Table 6 for details.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019

TABLE 2

(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details			Abnormal Transaction			Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Company	Alchip Shanghai	Subsidiary	Purchase	\$ 340,539	11.40	Within 1 Year	The Same as Regular Terms	The Same as Regular Transaction Terms	(\$ 292,478)	(30.34%)	—
	Alchip Wuxi	Subsidiary	Purchase	117,929	3.95	Within 1 Year	The Same as Regular Terms	The Same as Regular Transaction Terms	(84,394)	(8.75%)	—
Alchip Shanghai	The Company	Subsidiary	Sale	(340,539)	(100)	Within 1 Year	The Same as Regular Terms	The Same as Regular Transaction Terms	292,478	100%	—
Alchip Wuxi	The Company	Subsidiary	Sale	(117,929)	(65.89)	Within 1 Year	The Same as Regular Terms	The Same as Regular Transaction Terms	84,394	99.93%	—

Alchip Technologies, Limited and Subsidiaries
 RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 December 31, 2019

(In Thousands of New Taiwan Dollars)

TABLE 3

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
The Company Alchip Shanghai	Alchip KK The Company	Subsidiary Subsidiary	\$ 127,944 292,478	0.36 1.15	\$ -	—	\$ -	-
					-	—	-	-

Alchip Technologies, Limited and Subsidiaries
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

TABLE 4

No. (Note 1)	Investee Company	Counterparty	Relationship y (Note 2)	Transaction Details			% to Total Revenue or Asset (Note 3)
				Financial Statement Account	Amount (Note 4)	Payment Terms	
0	The Company	Alchip KK	1	Accounts Receivable	\$ 127,944	Based on Regular Items	2
		Alchip KK	1	Operating Revenue	43,936	Based on Regular Items	1
		Alchip Hefei	1	Other Receivables	69,726	Based on Regular Items	1
1	Alchip Shanghai	The Company	2	Accounts Receivable	292,478	Based on Regular Items	6
		The Company	2	Operating Revenue	340,539	Based on Regular Items	8
2	Alchip Wuxi	The Company	2	Accounts Receivable	84,394	Based on Regular Items	2
		The Company	2	Operating Revenue	117,929	Based on Regular Items	3
3	Alchip Hefei	The Company	2	Operating Revenue	90,665	Based on Regular Items	2
		The Company	2	Accounts Receivable	18,205	Based on Regular Items	-
4	Alchip KK	The Company	2	Accounts Receivable	55,747	Based on Regular Items	1
		The Company	2	Operating Revenue	92,404	Based on Regular Items	2

Note 1:

- (1) Fill in "0" for the parent company.
- (2) Subsidiaries are listed in order.

Note 2: Relationship types are as follows:

- (1) Parent to subsidiary.
- (2) Subsidiary to parent.
- (3) Between subsidiaries.

Note 3: For calculation of transaction amount to total sales or assets, the numerator and denominator are determined by the characteristics of the transaction. If the feature of the transaction belongs to balance sheet items, take the ending balance of the year divided by total assets; if the feature of the transaction belongs to income and expense items, take the accumulated balance of the year divided by total sales.

Note 4: All intra-group transactions, balances, income, and expenses are eliminated in full upon consolidation.

Alchip Technologies, Limited and Subsidiaries
 INFORMATION ON INVESTEES
 FOR THE YEAR ENDED DECEMBER 31, 2019

In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

TABLE 5

Investor	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income(Loss) of Investee	Share of Profit (Loss)	Note
				December 31, 2019	December 31, 2018	Number of Shares (in thousands)	%	Carrying Amount			
The Company	Alchip HK	Hong Kong	Investment	\$520,687 (Note 2)	\$520,687 (Note 2)	12,230,170	100	\$588,851 (Note 2)	\$101,346	—	
	Alchip USA	U.S.A.	Sales of ASIC and SOC.	114,922	114,922	391,000	100	20,787	(1,258)	—	
	Alchip KK	Japan	Sales of ASIC and SOC.	62,587	62,587	2	100	58,011	(6,644)	—	
	Alchip TW	Taiwan	ASIC and SOC services.	100	100	10	100	569,396	(18,098)	—	
	Alchip BVI	Tortola British Virgin Islands	Investment	473,317 (Note 1)	473,317 (Note 1)	50	100	529,262 (Note 1)	16,450	—	

Note 1: The investment amount of NT\$ 471,735 thousand (US\$ 15,050 thousand) has been injected. However, the procedures of capital-increase have not been completed.

Note 2: Among which, an amount of NT\$24,288 thousand (US\$820 thousand) has been injected. However, the procedures of capital-increase have not been completed.

Alchip Technologies, Limited and Subsidiaries
Information on Investments in Mainland China
FOR THE YEAR ENDED DECEMBER 31, 2019

In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

TABLE 6

Investee Company in China	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance from Taiwan as of December 31, 2018	Remittance of Funds		Accumulated Outward Remittance from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward						
Alchip Shanghai	Research and development, design, and sales of ASIC and SOC related services.	\$ 383,744 (RMB 102,392)	Note 1 (2)	\$ 383,744 (US 12,800)	-	-	\$ 383,744 (US 12,800)	\$ 1,045	100%	\$ 1,045 (2)2.	\$ 383,101	\$ -
Alchip (Wuxi)	Research and development and design of ASIC and SOC related services.	59,960 (RMB 12,482)	Note 1 (2)	59,960 (US 2,000)	-	-	59,960 (US 2,000)	29,109	100%	29,109 (2)2.	117,406	-
Alchip Hefei	Research and development and design of ASIC and SOC related services.	14,990 (RMB 3,469)	Note 1 (2)	14,990 (US 500)	-	-	14,990 (US 500)	46,019	100%	46,019 (2)2.	45,410	-
Alchip Jinan	Research and development and design of ASIC and SOC related services.	23,504 (RMB 5,031)	Note 1 (2)	23,504 (US 784)	-	-	23,504 (US 784)	25,269	100%	25,269 (2)2.	39,336	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ -	\$ -	\$ -

Note 1: The investment types are as follows:

- (1) Direct investment in mainland China.
- (2) Indirect investment in mainland China through a subsidiary in a third place. (Investor: Alchip H.K.)
- (3) Others.

Note 2: In the column of investment gain or loss:

- (1) It should be noted if the investment was still in preparation without investment gain or loss.
- (2) The recognition basis of investment gain or loss should be noted as follows:
 1. The financial statement is audited by an international accounting firm cooperating with accounting firms in Taiwan.
 2. The financial statement is audited by a certified public accountant cooperating with the parent company in Taiwan.
 3. Others

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