

Holtek Semiconductor Inc.

2019 Annual Report

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 version and Chinese version, the Chinese version shall prevail.

Taiwan Stock Exchange Market Observation Post System: <http://mops.twse.com.tw>

Holtek Semiconductor Inc. Website: <http://www.holtek.com.tw>

Printed on April 10, 2020

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I. Letter to the Shareholders

Dear Shareholders,

Holtek Semiconductor Inc. (hereinafter referred to as “the Company”), is facing present trade friction between China and the United States and also slower global economic growth during 2019. Rising production costs, decreases in end-product pricing due to market competition and highly extended competition in China's semiconductor industry directly affected the Company's 2019 revenues and profits, making it unable to achieve its intended objectives. The Company fell slightly short of its objectives to keep up with market trends for which the Company's management teams will be actively conducting reviews to improve its shortcomings.

Consolidated sales for 2019 were NT\$ 4,584 million, representing a 6% decrease YOY, compared with sales of NT\$ 4,863 million in 2018. The gross margin remains at over 49%, and net profits attributed to the parent company reached NT\$ 915 million in 2019, down by an amount of 14% when compared to the 2018 figure of NT\$ 1,064 million. The EPS figure was NT\$ 4.05 in 2019. The Company's sales of MCUs in 2019 was NT\$ 3,510 million, a reduction of 5% YOY, among which shipments of Touch MCUs exceeded 150 million dice (YoY +12%) and shipments of 32-bit MCUs reached more than 22 million dice (YoY +33%). In the area of product applications for health care, security, brushless DC motors (BLDC), image AFEs and other applications, products have maintained a steady growth. This indicates that the Company has gradually attained wide recognition from its global customers and multiple application markets for its product development, worldwide agent structure, product quality and technical services.

An overview of the Company's operations during 2019 is provided below subdivided into product development, sales & marketing and production management.

Product Development:

In 2019, the Company's business was mainly focused on the integration of peripheral functions for wearable products, wireless communication, health care & measurement, smart home, security and other application areas. A total of 11 new series and 99 new types of MCUs and Peripheral ICs were released. These include AI Chip-IPU (Image Processing Units) and NPU (Neural-Network Processing Units), CAN Bus Controllers and CAN Bus MCUs, all of which meet with industrial specification 125°C operation temperature. Also released were solar energy powered extremely low power bank smart cards and LCD bank smart cards with a one-time password, a new generation of smoke detector Flash MCUs with integrated AFC and integrated RF transmitter, the world's lowest power consumption 2-key touch switch MCUs, a range of 8/32-bit specialised MCUs for health care & measurement applications, Arm® Cortex® M0+ BLDC MCUs (Brushless DC) MCUs for motor control applications, digital servo Flash MCUs and H-Bridge Driver ICs, Single/Multi-cell battery MCUs for power management applications, low power wireless charger flash MCUs, Sub-1 GHz and BLE Beacon TX ICs. Also released were a range of digital sensors which include air pressure sensors, temperature and humidity sensors, PIR sensors, smoke detector sensors and gas detector sensors for wireless communication and NB-IoT applications, etc. All of the above mentioned products have expanded greatly the Company's product lines for an ever wider application range, helping to maintain a strong revenue growth momentum.

Sales & Marketing:

In 2019, sales in Taiwan, China and overseas were influenced by the U.S.-China trade conflict and the fluctuation of individual economic recessions in certain areas. Due to the limitation of related industries in Taiwan, the proportion of total sales decreased by 10%. Overseas revenue accounted for 14% of the total revenue, showing a reduction from the previous year due to sluggish economic conditions in Europe. Business also declined slightly in areas including Central and South America as well as Japan and India. China, as the world's largest consumer electronics manufacturing area, accounted for 76%, mainly due to application areas which include security, health care & measurement, brushless DC motors, electric bicycle chargers, smart door locks, TWS wireless Bluetooth headsets and a range of other products. This performance is attributable to excellent performance by the sales teams in China. A significant point to note here is that sales agents remain located close to local production which has increased opportunities for the Company's products to be implemented into products.

Production Management:

With wafer production capacity at its limit and added to increased wafer costs, production management and cost controls took on a very important role during 2019. Sales and production departments were required to work closely together to supply customer market demands in close coordination with upstream and downstream manufacturers to meet customer's delivery requirements and maintain both supply and delivery consistency.

An overview of Holtek's 2020 overall business is provided below:

Looking forward to 2020, the global economy is expected to recover with the US-China trade conflict expecting to be resolved at the beginning of 2020. These are significant turning points for the development of the semiconductor industry. However, the Company still faces competition from China's fabless IC design companies and the effect of China's GDP is likely to show a continued decline, leading to a weakening of consumption. Due to this, the Company's management teams will accelerate the development schedule for planned products and also a range of digital sensor module products. At the same time and aimed at different application areas, the Company has established an application solution company and established a department for diverse algorithm development. This will provide continuous improvements to product quality and elevate the Company's product lines to a higher level thus increasing its competitive advantages.

The major areas for Holtek's product development in 2020 will be in 32-bit LCD MCUs, 5V USB M0+ MCUs, advanced low pin-count 8-bit MCUs, health care and measurements, RF wireless communications including 2.4GHz, BLE beacons, NFC, etc., 8-bit and 32-bit MCUs for BLDC motor control applications, security devices, smoke detectors MCUs, image recognition, electric vehicle and electric tool chargers, smart toys and sensor modules. These products will strengthen the Company's role in providing one-stop complete solutions for customer needs in a wide application area.

With regard to marketing in 2020 and in order to respond to strong competition from local vendors in China, the Company has strengthened its technical support capability among its global agents. This includes the ability to assist customers in developing solutions, so as to reduce the entry threshold for new products and reduce the problem of human resourcing. Additionally, the Company continues to expand its India local sales promotion and technical services, with a view to developing further new markets in emerging developing countries. The Company also spares no efforts in maintaining its valued customer base in the European, American, Japanese, South Korean and other regional areas. Here the Company will provide timely and local technical support in

response to local market needs. Additionally, and by using cross-border website e-commerce to market MCUs and modules, will allow the Company to reach even more potential customers. In addition to expanding its sales points and increasing its customer base, according to different device specifications, it will also provide a custom module service expanding further its global market share and continue to increase its revenue momentum during 2020.

With regard to production in 2020, the Company maintains close cooperation with wafer foundries, packaging and testing companies to maintain these long-term relationships. With excellent cost controls and maintaining a sufficient foundry production capacity, the Company will ensure that its existing customer demands remain as a first priority.

With specific MCUs conforming to vehicle and consumer safety specifications, product quality continues to improve as the Company continues to implement the relevant product quality certifications in these areas. With the 2020 wafer foundry capacity still experiencing restricted capacity, this will remain a major challenge for manufacturers focusing on low quantity wide range designs. As a result accurate predictions of niche market volumes will be an operating priority this year.

In 2020, the Company adjusted its strategy according to MCU development trends and enthusiastically searched for cooperative solution providers in related application areas. This will create opportunities for more design win-win solutions. Holtek is proud of its dedicated and talented employee teams, whether it be in marketing, R&D, planning production lead times, quality control, and many other areas. This human resource excellence coupled with the strong and close cooperation of wafer foundries, its wide product range, geographical locations, excellent customer relations and many other favourable factors has affirmed and further strengthened the Company's MCU strategy. At the same time and in adhering to its robust focus on R & D and innovation, the Company will generate substantial growth resulting in substantial profit for all of its shareholders.

Finally and most importantly, the Company will continue to build on its already established secure foundation for sustained growth of the MCU application market area well into the future to provide sustainable performance and profitability for all of our shareholders.

Chairman: Wu, Chi-Yung

General Manager: Gau, Kuo-Tung

II. Company Profile

2.1 Date of Incorporation:

The Company was found on October 1st, 1998.

2.2 History and Milestones of Holtek

Year	Month	Milestones
1998	October	Established in Hsinchu Science Park with paid-in capital of NT\$400 million.
1999	March	Increased share capital of NT\$600 million up to a total paid-in capital of NT\$1,000 million.
2000	March	Released first 8-bit OTP MCU which conformed to industry specification.
	April	Established Hong Kong office for shipping and warehousing operations in the Hong Kong and other regional areas.
	May	Public offering approval from the Ministry of Finance Securities and Futures Commission. Obtained ISO 9001 Certification.
2001	March	Established Shanghai Office (Holtek Semiconductor (Shanghai) Inc.), for IC sales and provision of technical support and consulting services in China.
	May	Established North America Office (Holtek Semiconductor (USA) Inc.) for IC sales and provision of technical support and consulting services in North American.
2002	August	GTSM-Listed Stocks were approved by the Ministry of Finance Securities and Futures Commission.
	October	Established Suzhou Office (Holtek Semiconductor (Suzhou) Inc.), for IC sales and provision of technical support and consulting services in China.
	November	Official Over-the-Counter Stock Exchange registration.
2003	July	Obtained ISO 14001 Certification.
	August	Obtained SONY "Green Partner" Certification.
	September	Obtained the 12 th National Invention Prize.
2004	September	Official Share Listing.
	December	Global Semiconductor Association presented an Outstanding Financial Performance Award to Holtek.

Year	Month	Milestones
2005	June	Obtained "ASUS Green Partner" Certification.
	September	Approval from Ministry of Economic Affairs, R.O.C. to setup a Research and Development Centre in Taiwan.
	October	Obtained Samsung Electronics "ECO Partner" Certification.
	November	First Holtek MCU Innovation Competition held in Taiwan.
	December	Approval from Ministry of Economic Affairs, R.O.C. to setup headquarters in Taiwan.
2006	May	First Holtek MCU Innovation Competition held in China.
	November	Obtained OHSAS 18001 Occupational Health and Safety Assessment Series Certification.
2007	January	Released first 8-bit Flash MCU which conformed to industrial specifications.
	May	Obtained IECQ QC080000HSPM Certification.
	December	Holtek Wireless USB Audio MCU HT82A850R/HT82A851R won the Chinese Electronic Innovation Award.
2008	February	Established Xiamen Office (Holtek Semiconductor (Xiamen) Inc.), for IC and Microcontroller application tool technical support and consulting services in China.
2010	January	Released first integrated 8-bit Touch Key Flash MCU.
2011	May	Holtek Semiconductor (Shanghai) Inc. moved to Shenzhen and renamed its name to Holtek Semiconductor (Shenzhen) Inc., for IC sales and provision of technical support and consulting services in China.
	June	Released first 32-bit ARM® Cortex®-M3 Flash MCU.
	July	Approval from Ministry of Economic Affairs, R.O.C. to setup headquarters in Taiwan.
	October	Released Touch Key Flash MCU with LED/LCD Driver.
	December	Holtek's 8-bit MCU revenue ranked 18 th position globally.

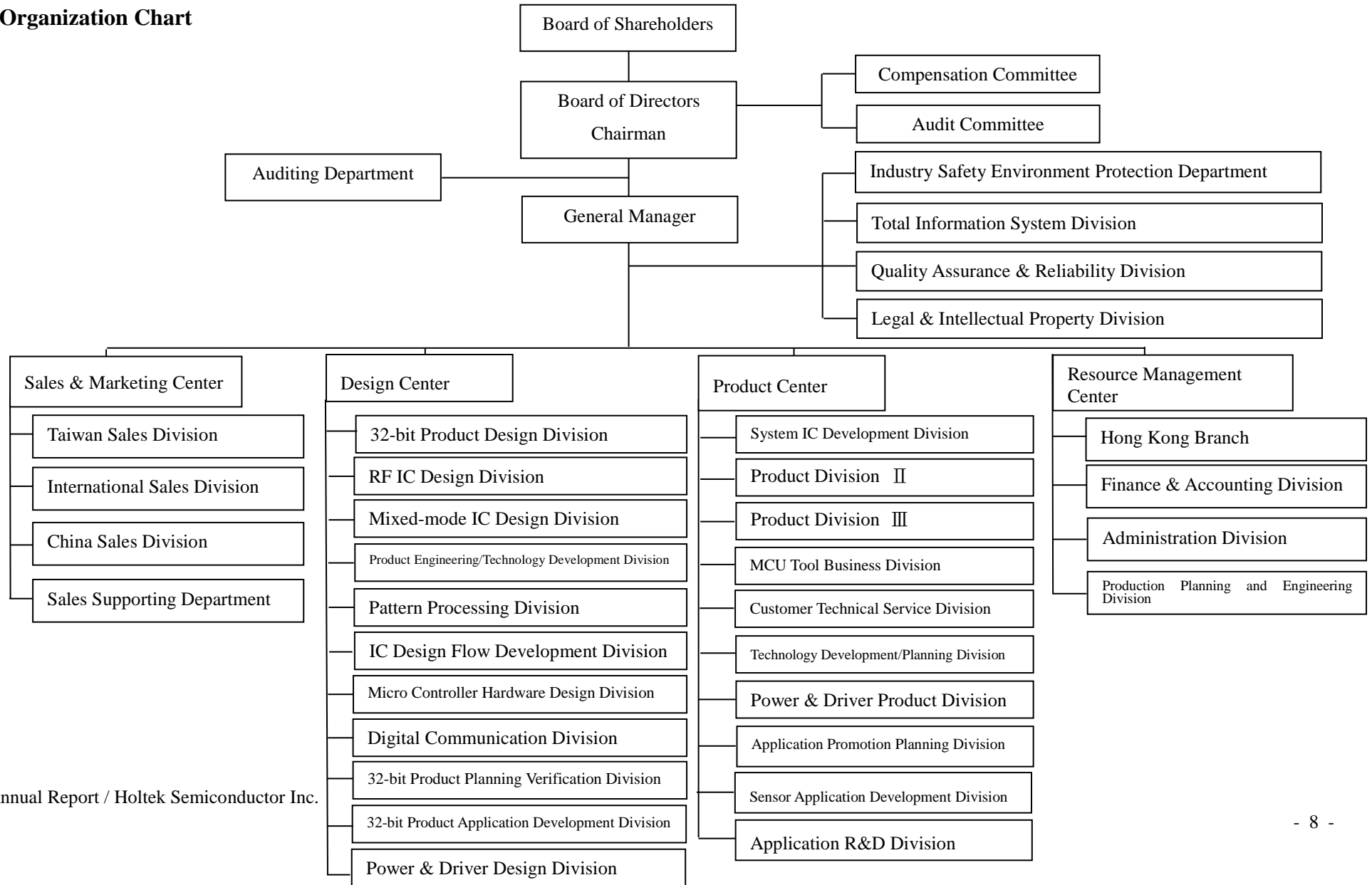
Year	Month	Milestones
2012	June	Holtek Semiconductor (Shenzhen) Inc. relocated and established subsidiary company in Songshan Lake, Dongguan. (Holtek Semiconductor (China) Inc.), for IC sales and provision of technical support and consulting services in China.
	December	Holtek 8-bit MCU revenue ranked 14 th position globally. New products in 2012: 1. Smoke Detector ASSP Flash MCU. 2. Power Bank ASSP Flash MCU.
2013	September	Established Holtek Semiconductor (China) Inc.-Beijing Office, for IC sales and provision of technical support and consulting services in Northern China. Established Holtek Semiconductor (China) Inc.-Hangzhou Office, for IC sales and provision of technical support and consulting services in Eastern and Central China. Established Holtek Semiconductor (China) Inc.-Shunde Office, for IC sales and provision of technical support and consulting services in Shunde District in China.
	November	Obtained Qi Spec Certification of Wireless Power Consortium (WPC).
	December	Holtek 8-bit MCU revenue ranked 11 th position globally. New products in 2013: 1. 20-bit A/D + LCD Flash MCU. 2. Blood Pressure Meter ASSP Flash MCU. 3. Glucose Meter ASSP Flash MCU.
2014	July	Released the World's Thinnest 6.5mm and 4.9mm Optical Fingerprint Identification Module. The World's Fifth Semiconductor Company with UL 60730-1 Software Certification - Household Appliances Security Mechanisms. Approval from Ministry of Economic Affairs, R.O.C. to setup headquarters in Taiwan.
	November	Wireless Charger MCU obtained Qi Spec Certification of Wireless Power Consortium (WPC). New products in 2014: 1. 1.8V~5.5V Flash MCU. 2. 24-bit A/D LCD Flash MCU. 3. Wireless Power Transmitter (Qi) ASSP Flash MCU. 4. Body Fat ASSP Flash MCU.

Year	Month	Milestones
2015	March September December	<p>Obtained the 3rd Taiwan Middlestand Award.</p> <p>Power Bank MCU obtained Qualcomm Quick Charge 2.0 Certification.</p> <p>Holtek to Run its 10th MCU Innovation Competition.</p> <p>New products in 2015 :</p> <ol style="list-style-type: none"> 1. The“world’s thinnest” (1mm) and ultra-high resolution optical hybrid fingerprint recognition sensor. 2. 32-bit ARM® Cortex®-M0+ Core Flash MCU. 3. Fast Charge Power Bank MCU.
2016	February	<p>Holtek signs Letter of Intent with Sony Mobile.</p> <p>New products in 2016 :</p> <ol style="list-style-type: none"> 1. 96MHz High-performance 32-bit Arm® Cortex®-M3 Core Flash MCU. 2. BLE Transparent Transmission Module. 3. Sub-1GHz Tx/Rx SoC & IC.
2017	April July December	<p>Top 5% of the 3rd Corporate Governance Assessment Award of the TWSE.</p> <p>Approval from Ministry of Economic Affairs, R.O.C. to setup headquarters in Taiwan.</p> <p>Holtek 8-bit MCU revenue ranked 9th position globally.</p> <p>New products in 2017:</p> <ol style="list-style-type: none"> 1. Series of Arm® Cortex®-M3 MCU, M0+ 5V MCU and Bridge MCU. 2. A/D NFC™ MCU, Sub-1 GHz Super Regeneration Rx SoC MCU and LoRa® technology solutions. 3. USB Type-C PD ASSP MCU and 15W Wireless Power Tx ASSP MCU.
2018	December	Holtek Semiconductor Inc. Wins Global Semiconductor Alliance (GSA)’s 2018 Best Financially Managed Semiconductor Company.
2019	April	Top 5% of the 5 th Corporate Governance Assessment Award of the TWSE.

III. Corporate Governance

3.1 Organization

3.1.1 Organization Chart



3.1.2 Major Corporate Functions

Department	Functions
Auditing Department	Responsible for internal auditing of the Company's business and administration.
Industry Safety Environment Protection Department	Responsible for industry safety, fire security, health care and environmental protection, etc.
Total Information System Division	Responsible for the information system development structure, information security management planning, network/hardware facility management, etc.
Quality Assurance & Reliability Division	Engaged in importing and exporting inspection, monitoring and evaluating of quality of outsourcing manufacturers, implementing quality control activities, instruments calibration, executing product reliability testing and providing customer complaint services, etc.
Legal & Intellectual Property Division	Responsible for legal affairs, intellectual property management and advisory services, etc.
Taiwan Sales Division	Responsible for product promotion and sales, agent/third party/customer management and technical services in Taiwan.
International Sales Division	Responsible for technology introduction and intelligence collection, agent/third party/customer management, technical support, product promotion and overseas sales.
China Sales Division	Responsible for market development, market analysis, product marketing and agency management in China.
Sales Supporting Department	Responsible for product inventory management, business information analysis and product pricing and cost management.
32-bit Product Design Division	Responsible for the development and integration of relevant IC/IPs for 32-bit MCUs.
RF IC Design Division	Responsible for the development and integration of radio frequency receiver ICs.
Mixed-mode IC Design Division	<p>(A) Technical evaluation and circuit design of analog ICs/IPs, Memory ICs/IPs and Digital Cell Libraries/IPs.</p> <p>(B) Circuit design of special I/Os and standardisation of ESD/Latch-up cells.</p>

Department	Functions
Product Engineering/Technology Development Division	Responsible for evaluation, management and verification of electrostatic protection and product engineering.
Pattern Processing Division	(A) Establishment of pattern processing automation environment and databases. (B) Mask outsourcing and Pattern layout execution.
IC Design Flow Development Division	(A) R&D environment integration and technical support of design tools, process and test engineering. (B) Coordinate the development and outsourcing of test technology and introduce testing processes into volume production and management.
Micro Controller Hardware Design Division	Responsible for technology strategic planning and product design planning management for the development of MCU devices.
Digital Communication Division	Responsible for the development of digital signal processors, digital signal processing algorithm development, digital modulation/demodulation technology and basic frequency data packet processing/link layer controller and analysis and simulation of communication system architecture.
32-bit Product Planning Verification Division	Responsible for product planning, specification and function validation of 32-bit MCUs.
32-bit Product Application Development Division	Engaged in providing 32-bit MCU software platforms for firmware and application value-added services.
Power & Driver Design Division	Responsible for the design evaluation and circuit design of Power Management driver ICs.
System IC Development Division	Responsible for the establishment and development of technical systems and SoCs for image and audio signal processing.
Product Division II	Responsible for the planning, development and product promotion of 8-bit MCUs.
Product Division III	(A) Coordinate the development technology for IC products, including standard MCUs, embedded MCUs, ASSP MCUs for specific products and ASIC related products related MCUs. Provide research on key technologies and the establishment of key IPs for technology-leading products. (B) Specification development, design development, product validation and software and hardware technical support for VFD/LED/LCD display controllers/driver ICs.

Department	Functions
MCU Tool Business Division	Responsible for project technology development, new technology evaluation and implementation, tool technology evaluation; customer service problem solving, implementing future continuous improvements; lab maintenance and components purchasing.
Customer Technical Service Division	Engaged in providing technical and product application integration for customer requirements.
Technology Development/Planning Division	<p>(A) Coordinate the development technology of IC products, including standard MCUs, embedded MCUs, ASSP MCUs for specific products. Includes analysis of product technical systems, development of IC market and technology development evaluation, IC specification and technology planning, IC application verification, product system verification, product application development, technical documents and follow-up product promotion technical services, etc.</p> <p>(B) Research in key technologies and establishment of key IPs for technology-leading products to upgrade product levels and competitiveness.</p>
Power & Driver Product Division	Responsible for planning, design development and new product promotion for Power Management & Driver IC market.
Application Promotion Planning Division	<p>(A) Graphic design and maintenance of the Company's website.</p> <p>(B) Graphic design of promotional documentation and videos.</p> <p>(C) Compilation and translation of technical documents.</p> <p>(D) Industry-academic cooperation.</p>
Sensor Application Development Division	Responsible for the development of sensor products, application specific ASSP MCUs and key IPs.
Application R&D Division	Responsible for pre-research, development and implementation of new product application technologies and the establishment of related solutions.
Hong Kong Branch	Responsible for overseas shipping and warehousing for Hong Kong and other countries.
Finance & Accounting Division	Responsible for accounting and tax management, reinvestment management, fund management, customer credit management, import and export bonded management, stock affairs and investor relations, etc.
Administration Division	Responsible for human resource management, general affairs and procurement management, etc.

Department	Functions
Production Planning/Engineering Division	Engaged in coordination for the outsourcing of procurement and packaging/testing, warehousing/logistics management, tool manufacturing, packaging/testing engineering and other operations; Production and sales coordination, order delivery and order monitoring, distribution of goods and source allocation arrangements.

3.2 Directors and Management Team

3.2.1 Directors

As of March 29, 2020, Unit: Shares

Title	Nation ality/ Count ry of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Executives or Directors who are spouses or within two degrees of kinship			Note
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman	R.O.C.	Wu Chi-Yung	Male	May 29, 2019	3	Sep. 7, 1998	7,665,809	3.39%	7,665,809	3.39%	2745,598	1.21%	–	–	Bachelor of Electronic Engineering Department, Feng Chia University Chairman, Holtek Semiconductor Inc.	Chairman, Holtek Semiconductor Inc. Representative of a juridical person director, Holtek Semiconductor Holding (BVI) Ltd., Kingtek Semiconductor Holding (BVI) Ltd., BestComm RF Electronics (BVI) Inc. and Holtek Semiconductor (Suzhou) Inc. Chairman, Holtek Investment Co., Ltd., Holtek Semiconductor (Xiamen) Inc., Holtek Semiconductor (China) Inc., BestComm RF Electronics Inc., Best Solution Technology Inc., and Best Modules Corp. Independent director, Greatek Electronics Inc.	–	–	–	–
Director	R.O.C.	Gau, Kuo-Tung	Male	May 29, 2019	3	Sep. 7, 1998	6,701,176	2.96%	6,701,176	2.96%	–	–	–	–	Bachelor of Electronic Engineering Department, Hwa Hsia University of	General Manager, Holtek Semiconductor Inc. Representative of a juridical person director, Holtek Semiconductor	–	–	–	–

Title	Nation ality/ Count ry of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Executives or Directors who are spouses or within two degrees of kinship			Note
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
														Technology General Manager, Holtek Semiconductor Inc. <						

Title	Nation ality/ Count ry of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Executives or Directors who are spouses or within two degrees of kinship			Note
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
															of Design and Product Center, Holtek Semiconductor Inc.	(Xiamen) Inc. and Holtek Investment Co., Ltd.				
Director	R.O.C.	Lin, Cheng-Fung	Male	May 29, 2019	3	Sep. 7, 1998	1,842,697	081%	1,842,697	081%	290,513	0.13%	-	-	Bachelor of Electronic Engineering Department, Feng Chia University Vice President of General Manager's Office, Holtek Semiconductor Inc.	Vice President of General Manager Office, Holtek Semiconductor Inc. Representative of a juridical person director, Sigmos Holdings Ltd., MCU Holdings Ltd., Best Health Electronics Corporation and Best Power Electronics Corporation	-	-	-	-
Director	R.O.C.	Tsai, Jung-Tsung	Male	May 29, 2019	3	May 29, 2019	322,684	0.14%	322,684	0.14%	241,580	0.11%	-	-	Bachelor of Automatic Control Engineering Department, Feng Chia University VP of Sales & Marketing Center, Holtek Semiconductor Inc.	Vice President of Sales & Marketing Center, Holtek Semiconductor Inc. Representative of a juridical person director, Holtek Semiconductor (USA) Inc., Santek Holdings Ltd., Santek Electronics (Xiamen) Ltd., Santek Electronics HK Limited, Newtek Electronics Ltd., Newtek Electronics (Shenzhen) Ltd., Newtek Electronics HK Limited, New Wave Electronics Holding Ltd., Truetek Technology Ltd., Truetek Technology (Shanghai) Ltd., Truetek Technology HK	-	-	-	-

Title	Nation ality/ Count ry of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Executives or Directors who are spouses or within two degrees of kinship			Note
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
																Limited, E-Micro Technology Holding Ltd., E-Micro Technology (Qingdao) Ltd., ForIC Electronics Holding Ltd., ForIC Electronics (Beijing) Ltd., ForIC Electronics HK Limited, Crown Rich Technology Holding Ltd., Crown Rich Technology (Shenzhen) Ltd., Quanding Technology Holding Ltd., Quanding Technology (Suzhou) Ltd., Quanding Technology HK Limited, Tech Wave Ltd., Best Modules Corp., Signal Electronic Co. Ltd. and EST Technology Integration Corp. Representative of a juridical person director and General Manager, Holtek Semiconductor (China) Inc. and Holtek Semiconductor (India) Private Limited.				
Director	R.O.C.	Wang, Jen-Chung	Male	May 29, 2019	3	June 1, 2004	2,137,209	094%	2,137,209	094%	1,500,000	0.66%	-	-	Master of Institute of Technology Management, Nation Tsing Hua University	Representative of a juridical person director, LiVE Technology Co., Ltd.	-	-	-	-
Independ ent Director	R.O.C.	Lu, Cheng-Yueh	Male	May 29, 2019	3	April 17, 2002	-	-	-	-	-	-	-	-	Master of Accounting Department,	CFA, LEE, LIN & CO. Independent Director,	-	-	-	-

Title	Nation ality/ Count ry of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Executives or Directors who are spouses or within two degrees of kinship			Note
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
															Soochow University CFA, LEE, LIN & CO.	YUAN JEN Enterprises Co., Ltd.				
Independ ent Director	R.O.C.	Hsing, Chih-Tien	Male	May 29, 2019	3	June 1, 2004	36,000	0.02%	36,000	0.02%	-	-	-	-	Ph.D., Electrical Department, University of Florida Senior Vice President, Quanta Computer Inc. and President of Quanta Research Institute	Independent Director, Browave Corporation and Innovision Flex Tech Corp.	-	-	-	-
Independ ent Director	R.O.C.	Kuo, Tai-Haur	Male	May 29, 2019	3	May 27, 2016	-	-	-	-	-	-	-	-	Ph.D., Electrical Engineering Department, University of Maryland Professor, Electrical Engineering Department, National Cheng Kung University	Professor, Electrical Engineering Department, National Cheng Kung University Independent Director, ChipMOS Technologies, Inc.	-	-	-	-

3.2.2 Professional Qualifications and Independence Analysis of Directors

Criteria Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)												Number of Other Public Companies in Which the Individual is 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	
Wu Chi-Yung			✓				✓		✓	✓	✓	✓	✓	✓	✓	1
Gau, Kuo-Tung			✓				✓		✓	✓	✓	✓	✓	✓	✓	0
Chang, Chi			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Lin, Cheng-Fung			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Tsai, Jung-Tsung			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Wang, Jen-Chung			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Lu, Cheng-Yueh		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Hsing, Chih-Tien			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Kuo, Tai-Haur	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Note: Directors, during the two years before being elected and during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

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. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or

subsidiary.

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 as one of its top 10 shareholders.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the officer in the preceding 1 subparagraph, or of any of the above persons in the preceding subparagraphs 2 and 3;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) serving on the company's board based on Paragraph 1 or 2 Article 27 of the Company Act. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
6. Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the Company. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
7. Not a director, supervisor, or employee of a company of which the Chairman or CEO (or equivalent) themselves or their spouse also serve as the Company's Chairman or CEO (or equivalent). Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the Company. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary holds 20 percent or more and no more than 50 percent of the total number of issued shares of the Company and as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the Company or any affiliate of the Company, or that provides commercial, legal, financial, accounting or related services to the Company or any affiliate of the Company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
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 Act.
12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

3.2.3 Management Team

As of March 29, 2020, Unit: Shares

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Note
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
General Manager	R.O.C.	Gau, Kuo-Tung	Male	Oct. 01, 1998	6,701,176	2.96%	-	-	-	-	Bachelor of Electronic Engineering Department, Hwa Hsia University of Technology	Representative of a juridical person director, Holtek Semiconductor Holding (BVI) Ltd., Kingtek Semiconductor Holding (BVI) Ltd., MCU Holdings Ltd., Sigmos Holdings Ltd., Holtek Semiconductor (USA) Inc., Holtek Semiconductor (India) Private Limited, Holtek Semiconductor (China) Inc., Holtek Semiconductor (Xiamen) Inc., BestComm RF Electronics (Dongguan) Inc., Best Health Electronics (Dongguan) Corporation, Best Driver-tech (Hangzho) Corporation (Tentative Name), Holtek Investment Co., Ltd., BestComm RF Electronics Inc., Best Module Corp. and Signal Electronic Co. Ltd. Chairman and General Manager, Holtek Semiconductor (Suzhou) Inc.	-	-	-	-
Executive VP of Design and Product Center	R.O.C.	Chang, Chi	Male	Dec. 11, 1998	1,111,785	0.49%	276,389	0.12%	-	-	Master of Electrical Engineering Department, National Cheng Kung	Executive Vice President of Design and Product Center, Holtek Semiconductor Inc. Representative of a juridical person director,	-	-	-	-

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Note
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
											University	Holtek Semiconductor (Suzhou) Inc., Holtek Semiconductor (Xiamen) Inc. and Holtek Investment Co., Ltd.				
VP of General Manager Office	R.O.C.	Lin, Cheng-Fung	Male	Dec. 11, 1998	1,842,697	0.81%	290,513	0.13%	-	-	Bachelor of Electronic Engineering Department, Feng Chia University	Vice President of General Manager Office, Holtek Semiconductor Inc. Representative of a juridical person director, Sigmos Holdings Ltd., MCU Holdings Ltd., Best Health Electronics Corporation and Best Power Electronics Corporation	-	-	-	-
VP of Sales & Marketing Center	R.O.C.	Tsai, Jung-Tsung	Male	June 15, 2010	322,684	0.14%	241,580	0.11%	-	-	Bachelor of Automatic Control Engineering Department, Feng Chia University	Representative of a juridical person director, Holtek Semiconductor (USA) Inc., Santek Holdings Ltd., Santek Electronics (Xiamen) Ltd., Santek Electronics HK Limited, Newtek Electronics Ltd., Newtek Electronics (Shenzhen) Ltd., Newtek Electronics HK Limited, New Wave Electronics Holding Ltd., Truetek Technology Ltd., Truetek Technology (Shanghai) Ltd., Truetek Technology HK Limited, E-Micro Technology Holding Ltd., E-Micro Technology (Qingdao) Ltd., ForIC Electronics Holding Ltd., ForIC Electronics (Beijing) Ltd., ForIC Electronics HK Limited, Crown Rich Technology	-	-	-	-

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Note
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
												Holding Ltd., Crown Rich Technology (Shenzhen) Ltd., Quanding Technology Holding Ltd., Quanding Technology (Suzhou) Ltd., Quanding Technology HK Limited, Tech Wave Ltd., Best Modules Corp., Signal Electronic Co. Ltd. and EST Technology Integration Corp. Representative of a juridical person director and General Manager, Holtek Semiconductor (China) Inc. and Holtek Semiconductor (India) Private Limited				
AVP of Quality Assurance & Reliability Division	R.O.C.	Wu, Shao-Nan	Male	June 23, 2003	103,845	0.05%	10,080	0.00%	–	–	Bachelor of Physics Department, Tung Hai University	None	–	–	–	–
AVP of Design Center	R.O.C.	Wu, Der-Chwan	Male	April 15, 2005	1,242,317	0.55%	–	–	–	–	Master of Electrical Engineering Department, National Cheng Kung University	None	–	–	–	–
AVP of Design Center	R.O.C.	Yu, Kuo-Cheng	Male	May 02, 2011	131,654	0.06%	29,839	0.01%	–	–	Bachelor of Electronic Engineering Department, Feng Chia University	None	–	–	–	–
AVP of Product Center	R.O.C.	Wang, Yuh-Dinhn	Male	July 01, 2009	393	0.00%	–	–	–	–	Master of Electrical Engineering Department, National Cheng	None	–	–	–	–

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Note
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
											Kung University					
AVP of Product Center	R.O.C.	Wang, Min-Kun	Male	April 01, 2011	175,349	0.08%	-	-	-	-	Bachelor of Electronic Engineering Department, National Taiwan Institute of Technology	Representative of a juridical person director, BestComm RF Electronics (BVI) Inc., BestComm RF Electronics Inc., BestComm RF Electronics (Dongguan) Inc., ETEK technology Company Ltd., Bestway Electronics Inc., Bestway Electronics (Shenzhen) Inc., Fine Chip Electronics Inc., Fine Chip Electronics (Shanghai) Inc., Anchip Technology Corporation, Anchip Technology (Dongguan) Corporation, JXY Electronics Corporation, JXY Electronics (Shenzhen) Corporation, Best Health Electronics Corporation, Best Health Electronics (Dongguan) Corporation, Best Health Electronics HK Limited, Best Power Electronics Corporation 、 Best Solution Electronic Inc. and Best Solution Technology Inc., Best Solution Technology (Dongguan) Inc. and Best Driver-tech Corporation	-	-	-	-
AVP of Product Center	R.O.C.	Liu, Yuan-Ho	Male	Jan. 01, 2017	50,422	0.02%	10,000	0.00%	-	-	Bachelor of Electronic Engineering Department, National Taipei University of	None	-	-	-	-

Title	Nationality/ Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Experience (Education)	Other Positions	Managers who are Spouses or Within Two Degrees of Kinship			Note
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
											Technology					
AVP of Product Center	R.O.C.	Pan, Chien-Chou	Male	May 20, 2019	109,000	0.05%	8,000	0.00%	-	-	Bachelor of Electrical Engineering Department, National Taiwan Institute of Technology	None	-	-	-	-
Head of Accounting Department	R.O.C.	Liao, Ming-Tung	Male	June 01, 2018	14,000	0.01%	-	-	-	-	Master of Accounting Department, National Chung Cheng University	Representative of a juridical person supervisor, Holtek Semiconductor (Suzhou) Inc., Holtek Semiconductor (China) Inc., Holtek Semiconductor (Xiamen) Inc., BestComm RF Electronics (Dongguan) Inc., Anchip Technology (Dongguan) Corporation, Best Health Electronics (Dongguan) Corporation, Santek Electronics (Xiamen) Ltd., New Wave Electronics (Shenzhen) Ltd., Truetek Technology (Shanghai) Ltd., E-Micro Technology (Qingdao), ForIC Electronics (Beijing) Ltd., Quanding Technology (Suzhou) Ltd., Fine Chip Electronics (Shanghai) Inc., JXY Electronics (Shenzhen) Corporation, Best Solution Technology (Dongguan) Inc., Holtek Investment Co., Ltd., BestComm RF Electronics Inc. and Best Modules Corp.	-	-	-	-
Head of Finance Department				February 01, 2019												

3.3 Remuneration of Directors, General Manager, and Vice Presidents

3.3.2 Remuneration of Directors (including independent directors)

Date: December 31, 2019; Unit: Value in NT\$ thousands

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%) (Note 10)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%) (Note 10)		Remuneration Paid to Directors from Non-consolidated Affiliates or Parent Company (Note 11)
		Base Compensation (A) (Note 2)		Severance Pay (B)		Bonus to Directors (C) (Note 3)		Allowances (D) (Note 4)				Salary, Bonuses, and Allowances (E) (Note 5)		Severance Pay (F)		Profit Sharing-Employee Bonus (G) (Note 6)						
		The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company		Companies in the consolidated financial statements (Note 7)		The company	Companies in the consolidated financial statements (Note 7)	
																Cash	Stock	Cash	Stock			
Director	Wu Chi-Yung	0	0	0	0	9,019	9,019	0	0	0.99%	0.99%	13,000	13,000	0	0	6,550	0	6,550	0	3.13%	3.13%	0
Director	Gau, Kuo-Tung																					
Director	Chang, Chi																					
Director	Lin, Cheng-Fung																					
Director	Tsai, Jung-Tsung																					
Director	Wang, Jen-Chung																					
Independent Director	Lu, Cheng-Yueh	0	0	0	0	3,000	3,000	0	0	0.33%	0.33%	0	0	0	0	0	0	0	0	0	0	
Independent Director	Hsing, Chih-Tien																					
Independent Director	Kuo, Tai-Haur																					

Note:

1. Please state the policy, system, standard and structure of remuneration payment for independent directors, and state the correlation between remuneration payment and responsibilities, risks, investment time and other factors:

- (1) The remuneration of independent directors shall be determined by their participation in the operation of the Company and the value of their contribution, and shall be determined by the reference of similar company.

- (2) In accordance with the "Board of Directors' Self-Assessment of Performance", the Company minimizes the possibility and relevance of future risks happened while considering the business performance, and timely reviews the remuneration system according to the actual business situation and relevant laws and regulations, so as to achieve the management balance between risks and rewards.
- 2. Except for the disclosures above, remuneration paid to the Company's directors for their services to all the companies listed in the financial statements (e.g., serving as a non-employee adviser): None.

Range of Remuneration	Name of Directors			
	Total of Aggregate of first four items of remunerations (A+B+C+D)		Total of Aggregate of first seven items of remunerations (A+B+C+D+E+F+G)	
	The Company (Note 8)	All companies in the consolidated financial statements (Note 9) H	The Company (Note 8)	All companies in the consolidated financial statements (Note 9) I
Below NT\$ 1,000,000	—	—	—	—
NT\$1,000,000 (incl.) ~ NT\$2,000,000 (not incl.)	Wu, Chi-Yung, Gau, Kuo-Tung, Chang, Chi, Lin, Cheng-Fung, Tsai, Jung-Tsung, Wang, Jen-Chung, Lu, Cheng-Yueh, Hsing, Chih-Tien, Kuo, Tai-Haur	Wu, Chi-Yung, Gau, Kuo-Tung, Chang, Chi, Lin, Cheng-Fung, Tsai, Jung-Tsung, Wang, Jen-Chung, Lu, Cheng-Yueh, Hsing, Chih-Tien, Kuo, Tai-Haur	Wang, Jen-Chung, Lu, Cheng-Yueh, Hsing, Chih-Tien, Kuo, Tai-Haur	Wang, Jen-Chung, Lu, Cheng-Yueh, Hsing, Chih-Tien, Kuo, Tai-Haur
NT\$2,000,000 (incl.) ~ NT\$3,500,000 (not incl.)	—	—	—	—
NT\$3,500,000 (incl.) ~ NT\$5,000,000 (not incl.)	—	—	—	—
NT\$5,000,000 (incl.) ~ NT\$10,000,000 (not incl.)	—	—	Wu, Chi-Yung, Gau, Kuo-Tung, Chang, Chi, Lin, Cheng-Fung, Tsai, Jung-Tsung	Wu, Chi-Yung, Gau, Kuo-Tung, Chang, Chi, Lin, Cheng-Fung, Tsai, Jung-Tsung
NT\$10,000,000 (incl.) ~ NT\$15,000,000 (not incl.)	—	—	—	—
NT\$15,000,000 (incl.) ~ NT\$30,000,000 (not incl.)	—	—	—	—
NT\$30,000,000 (incl.) ~ NT\$50,000,000 (not incl.)	—	—	—	—
NT\$50,000,000 (incl.) ~ NT\$100,000,000 (not incl.)	—	—	—	—
Above NT\$100,000,000	—	—	—	—
Total	9 persons	9 persons	9 persons	9 persons

Note 1: Names of directors shall be listed separately, including directors and independent directors and the amount of each payment shall be disclosed in summary accordingly.

Note 2: The remunerations paid to directors in the latest year (including salaries, additional pay, service pay, various prizes, rewards, etc.).

Note 3: The value of remunerations approved to be assigned to directors by the Board of Directors in the most recent year.

Note 4: This is the expenses incurred by directors over the past years from carrying out related tasks, including transportation, special expenditure,

various types of allowances, dormitory, and company cars, among other supplies in kind).

- Note 5: Salaries, additional pay, service pay, various prizes, rewards, transportation, special expenditure, various allowances, dormitory, cars, and other actual items that are claimed by directors and employees (including part-time general managers, vice presidents, other managers and employees) in the latest year.
- Note 6: This means that directors and employees (including part-time general managers, vice presidents, other managers, and employees) having claimed employee remunerations (including shares and cash) shall disclose employee remunerations distributed through the Board of Directors in the most recent year. If it is impossible to estimate the value planned to be distributed this year, follow the actual value distributed last year and calculated proportionally and Exhibit 1-3 shall be completed.
- Note 7: The total value of remunerations paid to directors of the Company by all companies in the Consolidated Report (including the Company) shall be disclosed.
- Note 8: For the total value of various remunerations paid to each director by the Company, disclose the name of the director in the respective bracket.
- Note 9: For the total value of various remunerations paid to each director of the Company by all companies (including the Company) in the Consolidated Report, disclose the name of the director in the respective bracket.
- Note 10: Net income is the value in the latest year. When the International Financial Reporting Standards are adopted, net income is the value indicated in the entity or individual financial report from the most recent year.
- Note 11: a. This column should clearly be filled out with the remuneration amount related to non-consolidated affiliates or parent company for directors of the Company.
- b. If the directors of the Company receive the remuneration from the non-consolidated affiliates or parent company, the remuneration shall be merged with the column I of the emolument bracket sheet; and the name of the column shall be changed to “Remuneration from Non-consolidated Affiliates or Parent Company”.
- c. Remuneration refers to the emolument (including employees, directors and supervisors emoluments) and business operation expense, etc., for directors of the Company as they are directors, supervisors or managers of non-consolidated affiliates or parent company.

3.3.2 Remuneration of the General Manager and Vice President

Date: December 31, 2019; Unit: Value in NT\$ thousands

Title	Name	Salary(A) (Note 2)		Severance Pay (B)		Bonuses and Special Allowances (C) (Note 3)		Employee Bonus (D) (Note 4)				Ratio of total Remuneration (A+B+C+D) to Net Income (%) (Note 8)		Remuneration Paid to the General Managers and Vice Presidents from Non-consolidated Affiliates or Parent Company
		The Company	All companies in the consolidated financial statements (Note 5)	The Company	All companies in the consolidated financial statements (Note 5)	The Company	All companies in the consolidated financial statements (Note 5)	The Company		All companies in the consolidated financial statements (Note 5)		The Company	All companies in the consolidated financial statements (Note 5)	
								Cash	Stock	Cash	Stock			
Chairman	Wu Chi-Yung	11,235	11,235	0	0	3,220	3,220	6,953	0	6,953	0	2.34%	2.34%	0
General Manager	Gau, Kuo-Tung													
Vice President	Chang, Chi													
Vice President	Lin, Cheng-Fung													
Vice President	Li, Pei-Ying (Note)													
Vice President	Tsai, Jung-Tsung													

Note: Ms. Li, Pei-Ying, VP of Resource Management Center, has applied for retirement for personal plan with the effective date of March 29, 2019.

Range of Remuneration	Name of General Managers and Vice Presidents	
	The Company (Note 6)	All companies in the consolidated financial statements (Note 7) E
Below NT\$ 1,000,000	—	—
NT\$1,000,000 (incl.) ~ NT\$2,000,000 (not incl.)	Li, Pei-Ying	Li, Pei-Ying
NT\$2,000,000 (incl.) ~ NT\$3,500,000 (not incl.)	—	—
NT\$3,500,000 (incl.) ~ NT\$5,000,000 (not incl.)	Wu, Chi-Yung, Gau, Kuo-Tung, Lin, Cheng-Fung, Chang, Chi, Tsai, Jung-Tsung	Wu, Chi-Yung, Gau, Kuo-Tung, Lin, Cheng-Fung, Chang, Chi, Tsai, Jung-Tsung
NT\$5,000,000 (incl.) ~ NT\$10,000,000 (not incl.)	—	—
NT\$10,000,000 (incl.) ~ NT\$15,000,000 (not incl.)	—	—
NT\$15,000,000 (incl.) ~ NT\$30,000,000 (not incl.)	—	—
NT\$30,000,000 (incl.) ~ NT\$50,000,000 (not incl.)	—	—
NT\$50,000,000 (incl.) ~ NT\$100,000,000 (not incl.)	—	—
Above NT\$100,000,000	—	—
Total	6 persons	6 persons

Note 1: Names of general manager and vice president shall be listed separately and individual payments made shall be disclosed through a summary.

Note 2: The remunerations paid to general manager and vice president in the latest year (including salaries, additional pay, service pay, various prizes, rewards, etc.).

Note 3: This is the expenses incurred by general manager and vice president over the past years from carrying out related tasks, including transportation, special expenditure, various types of allowances, dormitory, and company cars, among other supplies in kind).

Note 4: This means that general manager and vice president having claimed employee remunerations (including shares and cash) shall disclose employee remunerations distributed through the Board of Directors in the most recent year. If it is impossible to estimate the value planned to be distributed this year, follow the actual value distributed last year and calculated proportionally and Exhibit 1-3 shall be completed.

Note 5: The total value of remunerations paid to general manager and vice president of the Company by all companies in the Consolidated Report (including the Company) shall be disclosed.

Note 6: For the total value of various remunerations paid to general manager and vice president by the Company, disclose the name of the general

manager and vice president in the respective bracket.

Note 7: For the total value of various remunerations paid to general manager and vice president of the Company by all companies (including the Company) in the Consolidated Report, disclose the name of the general manager and vice president in the respective bracket.

Note 8: Net income is the value in the latest year. When the International Financial Reporting Standards are adopted, net income is the value indicated in the entity or individual financial report from the most recent year.

- Note 9:
- a. This column should clearly be filled out with the remuneration amount related to non-consolidated affiliates or parent company for general managers and vice presidents of the Company.
 - b. If the general managers and vice presidents of the Company receive the remuneration from non-consolidated affiliates or parent company, the remuneration shall be merged with the column E of the emolument bracket sheet; and the name of the column shall be changed to “Remuneration from Non-consolidated Affiliates or Parent Company”.
 - c. Remuneration refers to the emolument (including employees, directors and supervisors emoluments) and business operation expense, etc., for general managers and vice presidents of the Company as they are directors, supervisors or managers of non-consolidated affiliates or parent company.

3.3.3 Names and Distribution of Managers Assigned with Employee Rewards

As of December 31, 2019; Unit: Value in NT\$ thousands

	Title	Name	Employee Bonus in Stock (Fair Market Value)	Employee Bonus in Cash	Total	Ratio of Total Amount to Net Income (%)
Managers	Chairman	Wu Chi-Yung	0	15,152	15,152	1.66%
	General Manager	Gau, Kuo-Tung				
	Executive VP of Design and Product Center	Chang, Chi				
	VP of General Manager Office	Lin, Cheng-Fung				
	VP of Resource Management Center (Note 3)	Li, Pei-Ying				
	VP of Sales & Marketing Center	Tsai, Jung-Tsung				
	AVP of Quality Assurance & Reliability Division	Wu, Shao-Nan				
	AVP of Design Center	Wu, Der-Chwan				
	AVP of Design Center	Yu, Kuo-Cheng				
	AVP of Product Center	Wang, Yuh-Dinhn				
	AVP of Product Center	Wang, Min-Kun				
	AVP of Product Center	Liu, Yuan-Ho				
	AVP of Product Center (Note 4)	Pan, Chien-Chou				
	Head of Accounting/ Finance Department	Liao, Ming-Tung				

Note 1: Employee remunerations (including stock and cash) distributed to managers approved by the Board of Directors in recent years. If it is impossible to estimate the value planned to be distributed this year, follow the actual value distributed last year and calculate proportionally. After-tax pure earnings are those in the latest year. When the International Financial Reporting Standards are adopted, Net Income is the value indicated in the entity or individual financial statements from the most recent year.

Note 2: For the applicability of managers, follow the Tai-Cai-Zheng-San No. 0920001301 letter dated March 27, 2003.

- (1) General Managers and people of equivalent ranking
- (2) Vice Presidents and people of equivalent ranking
- (3) Assistant Vice Presidents and people of equivalent ranking
- (4) Head of Finance Department
- (5) Head of Accounting Department
- (6) Other people handling corporate affairs and signature rights

Note 3: Ms. Li, Pei-Ying, VP of Resource Management Center, has applied for retirement for personal plan with the effective date of March 29, 2019.

Note 4: Mr. Pan, Chien-Chou, the former Director was appointed as AVP of Product Center with the effective date of May 20, 2019.

3.3.4 Compare and Describe the Analysis of Ratios of Total Remunerations Paid to Directors, General Managers, and Vice Presidents of the Company for the past two years by the Company

Title	Ratio of total remuneration paid to directors, general managers and vice presidents to net income (%)	
	2018	2019
Directors	3.45%	3.46%
General Managers and Vice Presidents	2.56%	2.34%

1. Criteria for paying remunerations to directors of the Company and procedures for determining remuneration:

Pursuant to Article 24 of the Company's "Article of Incorporation", which stipulate that "When allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors. However, the Company shall have reserved a sufficient amount to offset its accumulated losses."

The Compensation Committee reviews the distribution of director's remuneration within the above amount in accordance with the individual performance and then submits it to the Board of Directors for approval.

2. Criteria for paying remunerations to general manager, vice presidents and managers and procedures for determining remuneration:

- (1) The Company has conducted the "Rules and Procedures for Performance Assessments", the remunerations of general manager, vice presidents and managers are appraised by the meeting of general manager room for reviewing in accordance with the Company's policy. Its remuneration is measured based on the business content, working experiences, personal achievements, contribution made to the business operation regulated in the "Rules and Procedures for Performance Assessments", which especially subject to personal achievements and contributions.
- (2) The annual distribution of employee remuneration is regulated in the Company's "Article of Incorporation". The Administration Division shall prepare the distribution and submit to the general manager room meeting for reviewing in accordance to the "Rules and Procedures for Performance Assessments", which refers to factors of business content, working experiences, personal achievements, contribution made to the business operation, which especially subject to personal achievements and contributions to the Company. The colleague performance shall be evaluated based on work ability (including workload/ difficulty/ achievement rate/ efficiency of job and quality, knowledge and skills), management and communication skills, as well as the outstanding performance in the current quarter.
- (3) The remunerations of the general managers, vice presidents and managers mentioned above shall be approved at the meeting of the general manager office, and shall be submitted to the Compensation Committee for discussion and then submit to the Board of Directors for approval.

3. Correlation between remuneration payment and business performance and future risks:

- (1) Remuneration specific directors is calculated based on their respective involvement in the Company's operations and contribution to the Company.
- (2) Remuneration of the general managers, vice presidents and managers shall be based on the position, contribution to the Company and reference to the standard of the industry, and is regulated in accordance with the "Rules and Procedures for Performance Assessments".

In accordance with the "Board of Directors' Self-Assessment of Performance", the Company minimizes the possibility and relevance of future risks happened while considering the business performance, and timely reviews the remuneration system according to the actual business situation and relevant laws and regulations, so as to achieve the management balance between risks and rewards.

3.4 Implementation of Corporate Governance

3.4.1 Board of Directors

The Board of Directors held 8 sessions in 2019. The attendance of the directors is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Chairman	Wu Chi-Yung	8	0	100%	
Director	Gau, Kuo-Tung	8	0	100%	
Director	Chang, Chi	8	0	100%	
Director	Lin, Cheng-Fung	8	0	100%	
Director	Li, Pei-Ying	4	0	80%	Resigned on May 29, 2019
Director	Tsai, Jung-Tsung	3	0	100%	Newly appointed on May 29, 2019
Director	Wang, Jen-Chung	8	0	100%	
Independent Director	Lu, Cheng-Yueh	8	0	100%	
Independent Director	Hsing, Chih-Tien	5	3	63%	
Independent Director	Kuo, Tai-Haur	8	0	100%	

Other mentionable items:

1. Meetings of the Board of Directors, if in accordance with the following conditions, shall clearly state the date of the Board of Directors' Meeting, the term number, the contents of the proposals, and opinions from all Independent Directors and the follow-up procedures of the Company:

(1) Matters listed in Article 14-3 of the Securities and Exchange Act:

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2019.01.28 The 7 th Term, the 17 th Meeting	<ol style="list-style-type: none"> 1. Approved the allocation of 2018 employee bonuses and directors' remuneration. 2. Approved the assignment of Financial Officer. 3. Approved the increased investment of MCU Holdings Ltd. to JXY Electronics Corporation. 	There is no objection or reservation expressed by any independent director in all six Board of Directors Meetings and major resolutions have been fully passed by the Board of Directors.

	Date	Resolution	Independent directors' opinions and the Company's Follow-up
		4. Approved the amendment to the Board of Directors' Self-Assessment of Performance and 2018 performance reports of Board of Directors, Compensation Committee Charter and Audit Committee Charter. 5. Approved the performance assessments and remuneration of directors and managers.	There is no objection or reservation expressed by any independent director in all six Board of Directors Meetings and major resolutions have been fully passed by the Board of Directors.
	2019.03.06 The 7 th Term, the 18 th Meeting	1. Approved the amendment to the Procedures for Acquisition or Disposal of Assets and Financial Derivatives. 2. Election of the 8th term Directors (including independent directors) will be proposed at 2019 Annual Shareholders' Meeting in accordance with the Company's Articles of Incorporation. 3. Approved the permit of directors' engagement in competitive conducts. 4. Approved the Internal Control System Statement. 5. Approved the assessment report of CPA's independence and competence.	
	2019.04.15 The 7 th Term, the 19 th Meeting	1. Approved the amendment to the Procedures for Lending Funds to Other Parties. 2. Approved the amendment to the Procedures for Endorsements/Guarantees.	
	2019.04.29 The 7 th Term, the 20 th Meeting	1. Approved the disposal the shares of GOSAN Technology Co., Ltd. 2. Approved the amendment to the Rules and Procedures of Board of Directors Meetings. 3. Approved the performance assessments and remuneration of directors and managers.	

	Date	Resolution	Independent directors' opinions and the Company's Follow-up
	2019.07.29 The 8 th Term, the 2 nd Meeting	<ol style="list-style-type: none"> 1. Approved the name change of Holtek's sub-subsidiary-BestComm RF Electronics Inc.. 2. Approved the capital increase of JXY Electronics (Shenzhen) Corporation invested by JXY Electronics Corporation. 3. Approved the capital increase of Quanding Technology Holding Ltd. invested by MCU Holdings Ltd.. 4. Approved the establishment of Hong Kong subsidiary of Holtek's sub-subsidiary-Best Health Electronics Corporation. 5. Approved the establishment of a new company in China invested by Holtek's sub-subsidiary-Best Solution Technology Inc.. 6. Approved the establishment of Hong Kong subsidiaries of the Holtek's affiliates. 7. Approved the permit of directors' engagement in competitive conducts. 8. Approved the performance assessments and remuneration of directors and managers. 	There is no objection or reservation expressed by any independent director in all six Board of Directors Meetings and major resolutions have been fully passed by the Board of Directors.
	2019.10.28 The 8 th Term, the 3 rd Meeting	<ol style="list-style-type: none"> 1. Approved the purchase of the directors and managers liability insurance. 2. Approved the establishment of Hong Kong subsidiaries of the Holtek's affiliates. 3. Approved the permit of directors' engagement in competitive conducts. 4. Approved the 2020 audit operational risk assessment reports and annual audit plans. 5. Approved the issuance of short-term currency exchange credit of Bank Sinopac Hsinchu Branch. 6. Approved the performance assessments and remuneration of directors and managers. 	

- (2) Written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion: None.
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: None
3. The evaluation cycle and period, evaluation scope, method and evaluation content and other information of the self (or peer) evaluation of the Board of Directors:
 - (1) Evaluation Cycle: At least once a year.
 - (2) Evaluation Period: Period from 2019/01/01 to 2019/12/31.
 - (3) Evaluation Scope: The Board of Directors, the Compensation Committee and the Audit Committee.
 - (4) Evaluation Method: Internal self-evaluation by members of the Board of Directors.
 - (5) Evaluation Content:
 - A. Internal Control Evaluation items for Board members (self or peer): The following five aspects are included: (a) Engagement in the operations of the Company; (b) Improving the decision-making quality of the Board of Directors; (c) Remuneration and structure of the Board of Directors; (d) Election of directors and their continuing education; (e) Internal control.
 - B. The performance assessment of the Compensation Committee and the Audit Committee shall include at least the following five aspects: (1) The degree of participation in the operation of the Company; (2) Improving the decision-making quality of the Board of Directors; (3) Composition and structure of the Board of Directors; (4) Appointment and continuous education of directors and (5) Internal control.
 - C. Collecting relevant information of the Board of Directors, the Audit Committee and the Compensation Committee at year end. After a return of questionnaires, the evaluation index scores will be formulated and reported to the Board of Directors.
 - D. The Company has completed the performance evaluation of the Board of Directors, the Compensation Committee and the Audit Committee in February, 2020. After the assessment, an evaluation of the execution of the Board of Directors, the Compensation Committee and the Audit Committee were found to work well during 2019.
4. Goals to enhance the Board's operations: The Company has conducted the "Rules and Procedures of Board of Directors' Meetings" and "Board of Directors Self-Assessment of Performance". The Compensation Committee has been established on October 25, 2011 and Audit Committee has been established on May 27, 2016 to enhance operational effectiveness of the Board of Directors.

3.4.2 Audit Committee

The Audit Committee was held by 3 independent directors and its major duty is that assisting the Board of Directors to execute and supervise their duties engaging in the tasks in accordance of the Company Act, the Securities and Exchange Act and any other relevant regulations or laws.

Major resolutions should be reviewed by the Audit committee includes: adoption or amendment of the internal control system, auditing and accounting policies and procedures, matters bearing on the personal interest of a director, material asset or derivatives transaction, material monetary loan, endorsement, or provision of guarantee, the offering or issuance of any equity-type securities, the hiring, discharge, or compensation of an attesting CPA, the appointment or discharge of the head of finance, accounting or auditing department, the Company's financial statements, the Company's merger and acquisition (M&A) matters, etc.

The Audit Committee held 7 sessions in 2019. The attendance of the independent directors is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director	Lu, Cheng-Yueh	7	0	100%	
Independent Director	Hsing, Chih-Tien	4	3	57%	
Independent Director	Kuo, Tai-Haur	7	0	100%	

Other mentionable items:

1. If the operations of the Audit Committee have any of the following circumstances, the Company should state the date of the Board of Directors' meeting, session, the content of the proposal, the resolution of the Audit Committee, and the Company's response toward the Audit Committee's opinions:

- (1) Matters listed in Article 14-5 of the Securities and Exchange Act:

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2019.01.28 The 7 th Term, the 17 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for the fourth quarter of 2018. 2. The allocation of 2018 employee bonuses and directors' remuneration. 3. The 2018 consolidated and individual financial statements. 	There is no objection or reservation expressed by any Independent Directors in all seven Board of Directors Meetings and major resolutions have been fully passed by the Audit Committee member

	Date	Resolution	Independent directors' opinions and the Company's Follow-up
		<ol style="list-style-type: none"> 4. Approved the assignment of Financial Officer. 5. Approved the increased investment of MCU Holdings Ltd. to JXY Electronics Corporation. 	and the Board of Directors.
	2019.03.06 The 7 th Term, the 18 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for January, 2019. 2. Approved the amendment to the Procedures for Acquisition or Disposal of Assets and Financial Derivatives. 3. Election of the 8th term Directors (including independent directors) is proposed at 2019 Annual Shareholders' Meeting in accordance with the Company's Articles of Incorporation. 4. Approved the permit of directors' engagement in competitive conducts. 5. Approved the statement of Internal Control System. 6. Approved the assessment report of CPA's independence and competence. 	
	2019.04.15 The 7 th Term, the 19 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for February, 2019. 2. Approved the amendment to the Procedures for Lending Funds to Other Parties. 3. Approved the amendment to the Procedures for Endorsements/Guarantees. 	
	2019.04.29 The 7 th Term, the 20 th Meeting	<ol style="list-style-type: none"> 1. The internal audit report for March, 2019. 2. Approved the consolidated financial statements for the first quarter of 2019. 3. Approved the disposal the shares of GOSAN Technology Co., Ltd. 4. Approved the amendment to the Rules and Procedures of Board of Directors Meetings. 	

	Date	Resolution	Independent directors' opinions and the Company's Follow-up
	2019.05.09 The 7 th Term, the 21 th Meeting	1. The internal audit report for May to April, 2019.	There is no objection or reservation expressed by any Independent Directors in all seven Board of Directors Meetings and major resolutions have been fully passed by the Audit Committee member and the Board of Directors.
	2019.07.29 The 8 th Term, the 2 nd Meeting	1. The internal audit report for May to May to June, 2019. 2. Approved the consolidated financial statements for the second quarter of 2019. 3. Approved the name change of Holtek's sub-subsidiary-BestComm RF Electronics Inc.. 4. Approved the capital increase of JXY Electronics (Shenzhen) Corporation invested by JXY Electronics Corporation. 5. Approved the capital increase of Quanding Technology Holding Ltd. invested by MCU Holdings Ltd.. 6. Approved the establishment of Hong Kong subsidiary of Holtek's sub-subsidiary-Best Health Electronics Corporation. 7. Approved the establishment of a new company in China invested by Holtek's sub-subsidiary-Best Solution Technology Inc.. 8. Approved the establishment of Hong Kong subsidiaries of the Holtek's affiliates. 9. Approved the permit of directors' engagement in competitive conducts.	
	2019.10.28 The 8 th Term, the 3 rd Meeting	1. The internal audit report for the third quarter of 2019. 2. Approved the consolidated financial statements for the third quarter of 2019.	

Date	Resolution	Independent directors' opinions and the Company's Follow-up
	3. Approved the purchase of the directors and managers liability insurance. 4. Approved the establishment of Hong Kong subsidiaries of the Holtek's affiliates. 5. Approved the permit of directors' engagement in competitive conducts. 6. Approved the 2020 audit operational risk assessment reports and annual audit plans. 7. Approved the issuance of short-term currency exchange credit of Bank Sinopac Hsinchu Branch. 8. Approved the 2020 business plan.	

(2) In addition to the above matters, other resolutions passed by two-thirds of all the directors but yet to be approved by the Audit Committee: None.

2. 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

3. Communications between the independent directors, the head of the auditing department and CPAs:

(1) The head of auditing department regularly reports to the Audit Committee and the Board of Directors on audit operations and the status of implementation at the Board of Directors' Meeting. The internal audit report was delivered to the independent directors for review every month. All discussion items will be declared in the minutes of the Board of Directors' Meeting. The independent directors and head of auditing department maintain effective communication with one another.

(2) While processing the review of the annual financial statements at the Audit Committee's and the Board of Directors' Meeting, the CPAs shall be present for reporting the audit results of financial report, material asset valuation and its accounting estimates. CPAs shall discuss and communicate with directors about the issues related to financial statements.

3.4.3 Taiwan Corporate Governance Implementation as Required by Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
1. Does the Company follow the “Taiwan Corporate Governance Implementation” to establish and disclose its corporate governance practices?	✓		The Company conducts the “The Best Practice Principles of Ethical Corporate Management” which has been disclosed and posted on the Company’s website and TWSE’s Market Observation Post System.	None
2. Shareholding Structure & Shareholders’ Rights				
(1) Does the Company have Internal Operation Procedures for handling shareholders’ suggestions, concerns, disputes and litigation matters. If yes, have these procedures been implemented accordingly?	✓		(1) The Company conducts " Rules and Procedures of Board of Directors Meetings" and has a spokesperson who designates appropriate personnel engaged in the business of investor relations and legal issues dealing with shareholder suggestions, doubts, disputes and lawsuits. The contact information has been disclosed on the Holtek website.	None
(2) Does the Company possess a list of major shareholders and beneficial owners of these major shareholders?	✓		(2) The Company controls the shareholding of directors, managers and shareholders, who hold more than 10% of the outstanding shares.	None
(3) Has the Company built and executed a risk management system and “firewall” between the Company and its affiliates?	✓		(3) The Company conducts "Regulations of Supervision and Management of Subsidiaries " and "Regulations on the Transaction Processing of Related Parties, Specific Companies and Group Enterprises" regulating the establishment and improvement of the financial, business and accounting management system, the implementation of requested control mechanism and the establishment of appropriate firewall mechanisms.	None
	✓		(4) The Company conducts "Best Practice Principles of Ethical	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
(4) Has the Company established internal rules prohibiting insider trading on undisclosed information?			Corporate Management", the "Codes of Ethical Conduct of Directors' and Managers" and the "Operating Procedures for Handling Internal Material Information and Preventing Insider Trading" to prohibit insiders from trading on undisclosed information. The Company has also strongly advocated these rules in order to prevent any violations.	
3. Composition and Responsibilities of the Board of Directors (1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?	✓	(1)	<p>A. The Company has nine directors on the Board of Directors who are responsible for operation and supervision. Each director has a suitable professional background, including management administration, leadership and decision making, knowledge of industry, finance and accounts, legal issues, etc. The composition of its Board of Directors conforms to the diversification policy. The "Principles for Corporate Governance" of the Company stipulates the diversification policy of the Board of Directors' members.</p> <p>B. The Board of Directors includes 5 inside directors who are also employed by the Company (56%), and 3 independent directors (33%), 1 external director (11%). The composition of the Board of Directors shall be determined by taking diversify into consideration, such as having different professional background or working field etc., and shall have the knowledge, skills and experience necessary to perform their duties.</p> <p>C. The professional competence of each director is as follows:</p>	None

Assessment Item	Implementation Status							Non-implementation and Its Reason(s)		
	Yes	No	Summary							
			<div>Diversified Core Items</div>	Gender	Manag ement Admini stration	Lead ership and decisio n making	Knowle dge of industr y	Finance and account ing	Legal	
			Name							
			Wu, Chi-Yung	Male	V	V	V			
			Gau, Kuo-Tung	Male	V	V	V		V	
			Chang, Chih	Male	V	V	V			
			Lin, Cheng-Fung	Male	V	V	V			
			Tsai, Jung-Tsung	Male	V	V	V			
			Wang, Jen-Chung	Male	V	V	V	V	V	
			Lu, Cheng-Yueh	Male	V	V		V	V	
			Hsing, Chih-Tien	Male	V	V	V			
			Kuo, Tai-Haur	Male	V	V	V			
(2) Other than the Compensation Committee and the Audit Committee which are required by law, does the Company plan to set up other Board committees?	✓		(2) The Company has set up a Compensation Committee and an Audit Committee. In the future, the Company will decide whether to set up other functional committees according to regulations and operational needs.							None
(3) Has the Company formulated the	✓		(3)							None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
<p>regulations and method for the performance evaluation of the board of directors, conducts performance evaluation regularly every year, reports the results of the performance evaluation to the board of directors, and takes it as a reference for the remuneration, nomination and re-appointment of each director?</p>			<p>A. The "Board of Directors' Self-assessment of Performance" was approved by the Company Board of Directors in January, 2016. The performance assessment of the Board of Directors and the functional committees shall include at least the following five aspects: (1) The degree of participation in the operation of the Company; (2) Improving the decision-making quality of the Board of Directors; (3) Composition and structure of the Board of Directors; (4) Appointment and continuous education of directors and (5) Internal control.</p> <p>B. Collecting relevant information of the Board of Directors, the Audit Committee and the Compensation Committee at year end. After a return of questionnaires, the evaluation index scores will be formulated and reported to the Board of Directors. It is taken as a reference for the remuneration, nomination and re-appointment of each director.</p> <p>The Company has completed a performance assessment of the Board of Directors, the Audit Committee and the Compensation Committee in February, 2020. After the assessment, the functions of the Board of Directors, the Audit Committee and the Compensation Committee were found to work well during 2019.</p>	
<p>(4) Does the Company regularly evaluate its external auditors' independence?</p>	✓	(4)	<p>A. The Company shall review the professional qualification and independence of independent certified public accountants (CPA) regularly every year. The statement of Independence from Auditors by KPMG was subject to approval by the Audit Committee and Board of Directors in March, 2019.</p>	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
			B. The evaluation, under the auspices of the Audit Committee and the Board of Directors, was done according to 10 criteria for independence. No violation was found. A relevant certification fee has been paid to two independent certified public accountants (CPA) by the Company. They have never serve as directors, managers or ones who engage in significant positions. The most recent evaluation of their independence to ensure that they are non-interest parties and that their independence is intact, complies with the requirements for independence and competency.	
4. Has the Company have deployed appropriate numbers of suitable corporate governance personnel, and designated corporate governance directors responsible for corporate governance-related matters (including but not limited to providing directors, supervisors with information required to perform business, assisting directors, supervisors in complying with laws, handled matters related to meetings of the board of directors and shareholders' meeting on the basis of the laws, and prepared the minutes of the board of directors and shareholders' meetings, etc.?	✓		<p>The Company designates appropriate personnel engaged in the business of stock business of Resource Management Center is responsible for corporate governance related affairs of the Company whose main responsibility is to provide the information required by the directors for business management and the latest legal development related to the operation of the Company.</p> <p>Business performance in 2019 is as follows:</p> <p>A. Handling matters related to the meeting of the Board of Directors and shareholders.</p> <p>B. Preparing the minutes of the Board of Directors and shareholders' meeting.</p> <p>C. Assisting the directors with continuing education and compliance.</p> <p>D. Providing the information required by the directors for the execution of the business.</p>	None
5. Has the Company established a means of	✓		The Company designates appropriate personnel engaged in the	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
communicating with its Stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?			business of investor relations, providing information to Stakeholders, including shareholders, customers, suppliers, and investors. The communication channels and Stakeholders Concerns can be found on the Holtek website in response to stakeholders' issues. (Refer to the annual report (note 1) on page 46). The status of implementation shall report to the Board of Directors at least once a year.	
6. Has the Company appointed a professional registrar for its Shareholders' Meetings?	✓		The Company has appointed the Transfer Agency Department of SinoPac Securities Corporation to deal with shareholder affairs.	None
7. Information Disclosure				
(1) Has the Company established a corporate website to disclose information regarding its financial, business and corporate governance status?	✓		(1) The Company has set up a Chinese/English website (www.holtek.com.tw) to disclose information regarding regularly disclosed financial business and corporate governance information.	None
(2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investor conference etc.)?	✓		(2) A. The Company has designated appropriate personnel engaged in the collection and disclosure of corporate information and has a spokesperson to regularly disclose financial business and corporate governance information. B. The Company holds quarter investor conferences regularly and discloses publicly available materials on the Holtek website and TWSE's Market Observation Post System.	None
(3) Does the Company announce and report the annual financial statements within two months after the end of the	✓		(3) A. The Company announced and reported the 2018 financial	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
fiscal year, and announce and report the first, second, and third quarter financial statements as well as the operating status of each month before the prescribed deadline?			statements on January 31, 2019, and the first, second, and third quarter financial statements on May 2, 2019, August 1, 2019, October 31, 2019, respectively, before the prescribed deadline. B. The Company follows relevant laws and regulations to announce and report the operating status of each month before the prescribed deadline.	
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies and purchasing insurance for directors)?	✓		A. Employee rights and employee care: In accordance with the regulations of labor law to guarantee employees' rights, the Company conducts related labor law and regulations and holds labor management meetings regularly for effective communication. The Company has set up an Employee Welfare Committee to hold regular activities, including festival vouchers, travel activities, club activities, employee health examination and group insurance, etc. B. Investor relations: The Company has a spokesperson system designating appropriate personnel engaging in investor relations to deal with all matters concerning stakeholders' rights and concerns. C. Supplier relationship: The Company pays attention to suppliers who conform to international environmental protection regulations and labor safety and health standards, to meet the commitment of establishing a green supply chain. D. Rights of stakeholders: The Holtek's website discloses the Stakeholders Concerns for the Company to respond to issues raised by stakeholders. E. Directors' self-development courses: The Company plans directors' self-development courses every year to strengthen their professional knowledge and practical operation. Refer to Page	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
			<p>72~73 of this annual report.</p> <p>F. Implementation of risk management policies and risk measurement standards: The Company has established and effectively implemented an internal control system to reduce various risks. Refer to Page 128~Page 131 of this annual report.</p> <p>G. Arrangement of liability insurance for its directors: The renewal of the board of directors' liability insurance has been approved by the Audit Committee and the Board of Directors in October, 2019. The insurance amount for 2019 was US\$ 5 million, which was reported to the TWSE's Market Observation Post System in accordance with the regulations.</p>	
<p>9. The improvement status for the result of Corporate Governance Evaluation announced by the Taiwan Stock Exchange.</p> <p>The Company has been ranked as a top 20% TPEX company in the first, second and forth Corporate Governance Evaluation; a top 5% TPEX company in the third and fifth Corporate Governance Evaluation. In the future, we will continue to cooperate with all competent authorities in promoting and improving corporate governance evaluation to strengthen corporate governance.</p>				

Note 1: Stakeholders' concerns and communication channels

The Company maintains good communication channels for the rights of its stakeholders. It respects the lawful rights and concerns of stakeholders, integrates the efforts of internal organizations, and effectively implements the mission of corporate social responsibility.

Stakeholders	Concern Items	Communication Channels and Methods
Employees	<ol style="list-style-type: none"> 1. Employee benefits 2. Career planning and development 3. On-the-job training 	<ol style="list-style-type: none"> 1. Company announcement (Non-periodic) 2. Communication channel with the Administration Division (Non-periodic) 3. Labor management meetings (Periodic)

Stakeholders	Concern Items	Communication Channels and Methods
	4. Equal rights to work and workplace safety 5. Physical and mental health	4. Employee suggestion box (Non-periodic) 5. Occupational safety and health committee (Periodic) 6. Medical staff (Non-periodic)
	Name: Shiou-Ming, Li, Manager of Administrative Division; Tel: 886-3-5631999 ext. 1303; Email: liman1103 @holtek.com.tw	
Customers	1. Product quality and delivery time 2. Ability of engineering technology and application scheme 3. Supply chain management 4. Sales service and privacy	1. Customer satisfaction survey (Periodic) 2. Visiting customers by executives (Non-periodic) 3. Customer audits (Non-periodic) 4. Agent regular meetings (Periodic)
	Contact Information: The Holtek website has set up a location for Stakeholders Concerns for stakeholders to establish communication channels, designated officers' names, telephone and E-mail for each area of the sales divisions.	
Shareholders /Investors	1. Operation overview 2. Financial information 3. Risk management 4. Profitability and dividend payment of the company 5. Corporate governance and corporate social responsibility	1. Annual report (Periodic) 2. Annual Shareholders' meeting (Periodic) 3. Quarterly investor conferences and non-periodic investment forum 4. Stakeholders section on Holtek's website (Non-periodic)
	Name: Claire Hsieh, Investor Relations & Media Contacts; Tel: 886-3-5631999 ext. 1612; Email: ir@holtek.com.tw	
Suppliers	1. Conflict free minerals 2. Implementation of green products 3. Supplier services and privacy 4. Payment capacity and financial risk	1. Supplier meetings (Periodic) 2. Visit suppliers by executives (Non-Periodic) 3. Supplier satisfaction survey (Periodic) 4. Supplier audits and quality inspection (Periodic) 5. Supplier ISO certification (Periodic)
	Name: Shiou-Ming, Li, Manager of Procurement Business; Tel: 886-3-5631999 ext. 1303; Email: liman1103 @holtek.com.tw	
Government Institutions	1. Major Company information 2. Compliance	1. Official document (Non-Periodic) 2. Regulatory briefings and seminars (Non-Periodic)

Stakeholders	Concern Items	Communication Channels and Methods
	3. Disclosure of Company information 4. Issues related to corporate governance 5. Labor relations and gender equality 6. Tax payment 7. Industrial upgrading	3. Market Observation Post System (regulated by the TWSE) (Non-Periodic) 4. Communication with government authorities timely (Non-Periodic) 5. CPA audits and tax services (Non-Periodic) 6. Legal advisory services (Non-Periodic)
	Name: Claire Hsieh, Investor Relations & Media Contacts; Tel: 886-3-5631999 ext. 1612; Email: ir@holtek.com.tw	
Public Persons	1. Social participation and industry-academic cooperation 2. Social welfare and charitable donations	1. Industry-academic cooperation (Non-Periodic) 2. Providing training and internship opportunities for students in the Company (Non-Periodic) 3. Holtek MCU Innovation Competition (Periodic) 4. Donations and procurement of products for disadvantaged groups (Non-Periodic)
	Name: Claire Hsieh, Investor Relations & Media Contacts; Tel: 886-3-5631999 ext. 1612; Email: ir@holtek.com.tw	

3.4.4 Composition, Responsibilities and Operations of the Compensation Committee

1. The duties of Compensation Committee:

- (1) Prescribe and periodically review the annual and long-term performance and remuneration policy, system, standards and structure for directors and managers.
- (2) Periodically evaluate achievement of performance targets by directors and managers and prescribe their individual scope and amount of remuneration.

2. Professional qualifications and independence analysis of Compensation Committee members:

Title	Criteria Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director (Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	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	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		
Independent Director	Hsing, Chih-Tien			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Independent Director	Lu, Cheng-Yueh		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Kuo, Tai-Haur	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Note: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) 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.
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 of one percent or more of the total number of issued 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 a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act.
6. Not a majority of the company's director seats or voting shares and those of any other company are controlled by the same person: a director, supervisor, or employee of that other company.
7. Not the chairperson, general manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses: a director (or governor), supervisor, or employee of that other company or institution.
8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company.
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
10. Not a person of any conditions defined in Article 30 of the Company Act.

3. Attendance of members at Compensation Committee meetings:

- (1) The Company's Compensation Committee has 3 members in total.
- (2) Current members will serve from May 29, 2019 to May 28, 2022. The Compensation Committee held 4 sessions in 2019. The attendance of the Compensation Committee members is shown in the following table:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Convener	Hsing, Chih-Tien	1	3	25%	
Committee Member	Lu, Cheng-Yueh	4	0	100%	
Committee Member	Kuo, Tai-Haur	4	0	100%	

Other mentionable items:

1. If the Board of Directors declines to adopt or modifies a recommendation of the Compensation Committee, it should specify the date of the meeting, session, content of the motion, resolution by the Board of Directors, and the Company's response to the Compensation Committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the Compensation Committee, the circumstances and cause for the difference shall be specified): None.
2. Resolutions of the Compensation Committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2019.01.25 The 3 rd Term, the 14 th Meeting	<ol style="list-style-type: none"> 1. Approved the Company's "Regulations Governing the Compensation System of the Directors and the Managers". 2. Approved the managers' quarterly bonuses for the fourth quarter of 2018. 3. Approved the managers' annual bonuses for 2018. 4. Approved the managers' payroll adjustments of 2019. 5. Approved the managers' monthly performance allowances for the first quarter of 2019. 6. Approved the managers' monthly position allowances of 2019. 	There is no objection or reservation expressed by any independent director in all four Compensation Committee Meetings and major resolutions have been fully passed by the Compensation Committee members and the Board of Directors.

Date	Resolution	Independent directors' opinions and the Company's Follow-up
2019.04.26 The 3 rd Term, the 15 th Meeting	1. Approved the managers' monthly performance allowances for the second quarter of 2019.	There is no objection or reservation expressed by any independent director in all four Compensation Committee Meetings and major resolutions have been fully passed by the Compensation Committee members and the Board of Directors.
2019.07.26 The 4 th Term, the 1 st Meeting	1. Approved the managers' monthly performance allowances for the third quarter of 2019. 2. Approved the directors' remuneration for 2018. 3. Approved the allocation of 2018 employee bonuses.	
2019.10.25 The 4 th Term, the 2 nd Meeting	1. Approved the managers' monthly performance allowances for the fourth quarter of 2019.	

3.4.5 Status of Fulfilling Corporate Social Responsibility

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
1. Does the Company follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to company operation, and establish risk management related policy or strategy?	✓		The Company follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to company operation, and establish policy of risk management. Please refer to Page 64 ~ 66 of this annual report (Note 2).	None
2. Does the Company have a dedicated (or ad-hoc) CSR organization with Board of Directors authorization for senior management, which reports to the Board of Directors?	✓		The Resource Management Center of the Company is responsible for the operation of the corporate social responsibility (CSR). The Finance Department, Quality Assurance & Reliability Division, Industry Safety Environment Protection Department, Application Promotion Planning Division, Production Planning and Engineering Division, Administration Division assist to establish and review of corporate social responsibility policy, regularly collect relative laws and issues of social and environment development, formulate corresponding actions. The status of implementation shall report to the Board of Directors at least once a year.	None
3. Environmental Topic				
(1) Has the Company set an environmental management system designed to industry characteristics?	✓		(1)The Company has obtained ISO14001 certification. A dedicated personnel is responsible for continuous improvement in its environmental management system and its philosophy of corporate social responsibility.	None
(2) Is the Company committed to improving resource efficiency and to the use of renewable materials with	✓		(2)The Company is committed to promote the efficient usage of various resources (such as re-usage of transport packaging). The main framework for the development of pollution prevention and	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
low environmental impact?			continuous improvement is researching the energy-saving concepts of green products, improving its process technology to reduce environmental impacts, importing from green supply chains, promoting environmental education and enforcing recycling to protect water resources and maintain a sustainable earth.	
(3) Does the Company evaluate current and future climate change potential risks and opportunities and take measures related to climate related topics?	✓		(3) Holtek is a pure IC design company (Fabless Company) and located upstream from the final production vendor in the semiconductor industry. If significant impacts have suffered greatly as a result of global climate change, such as natural disasters, floods, wind disasters, so as to the limitation of water and electricity, supply chain disruptions and rising raw material costs which make business risks become increasingly relevant. The Company keep continuously concerning and complying with relevant environmental protection laws and regulations, in order to reduce effectively all risks associated with climate change.	None
(4) Does the Company collect data for greenhouse gas emissions, water usage and waste quantity in the past two years, and set energy conservation, greenhouse gas emissions reduction, water usage reduction and other waste management policies?	✓		(4) The Company is committed to environmental protection in response to global climate change. The implementation methods are as follows: A. Energy-saving measures in offices: (a) The Company controls air conditioning system depends on the season. Air conditioning system is kept at constant temperature at 26 degrees when it is turned on. The colleagues of the Company turn off the computer, air conditioner and lighting power conveniently on the way out of the office. (b) We installed LED energy-saving lamps to improve the	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
			<p>efficiency of the lighting system; energy-saving lamps have been replaced, so energy has been successfully saved and the lighting has been improved as well.</p> <p>B. Energy-saving measures in computer rooms: Implementing server virtualization to save energy.</p> <p>C. Water saving measures: Water supply devices are all equipped with frequency converters to stabilize water pressure, and inductive faucets are equipped in toilets to control water consumption up to 35%, effectively reducing unnecessary waste of water resources.</p> <p>D. Others:</p> <p>(a) Renting environmentally friendly copy machines, using recycled copy paper and environmentally friendly toner to lessen the impact on the environment. Due to the adoption of electronic forms, the amount of copy paper used decreases every year.</p> <p>(b) Kitchen wastes, empty toner cartridges, iron, aluminum and glass cans, waste paper and PET bottles should be recycled and reused to reduce costs in buying new containers and the production of waste.</p>	
<p>4. Social Topic</p> <p>(1) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles?</p>	✓	(1)	<p>A. Holtek understands and follows related international standards, including the Responsible Business Alliance (RBA) Code of Conduct, UN Universal Declaration of Human Rights and Principles of the UN Global Compact, etc. The Company also</p>	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
(2) Has the Company have formulated and implemented reasonable employee benefits measures (including salary, leave and other benefits, etc.), and appropriately reflect the operating performance or results on the compensation of employees?	✓		<p>complies with the requirement of local laws and regulations.</p> <p>B. The Company respects the implementation of labor and ethical standards within the organization which has been declared on the employee website. In order to protect human rights, provide fair treatment and respect for every employee, Holtek has formulated a “Guidelines on Dealing with Employee Sexual Harassment” to protect the rights of its employees and job-seekers.</p> <p>A. Article 24 of the Company’s “Articles of Incorporation”: when allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors. However, the Company shall have reserved a sufficient amount to offset its accumulated losses.</p> <p>B. The Administrative Division of the Company evaluates employees’ operating performances based on the personnel salary system, performance evaluation method, reward and punishment mechanism and code of practice for employees. These evaluation criteria include work ability (including workloads/ difficulties/ achievement rate/ efficiency and quality/ knowledge and skills), management and communication ability and contribution for the current year. Report of operating performances on the compensation of employees is presented to the general manager meeting for assessment. Moreover, event of out-performance of any</p>	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
			<p>employees will be a plus.</p> <p>C. The Company features an employee restaurant, staff recreation area, sports and fitness equipment area, rhythm classroom, medical room and other facilities. All employees are entitled to benefits such as group insurance, regular high-quality health checks etc. Professional medical staff are utilised to provide staff with health management facilities and medical insurance. The Company continues to build on our already established firm foundation for sustained continued growth well into the future to provide stable performance and profitability for all employees.</p> <p>D. The Employee Welfare Committee holds regular staff travel activities, a range of game based competitions, a year-end party and other activities. In addition, there are birthday gift vouchers, festival vouchers, travel subsidies, marriage/funeral cash gifts, birth and hospitalization time are all covered all the Company.</p>	
(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?	✓		(3) The Company has obtained ISO45001 certification. Related training is provided for continuous improvement of safety and health in employee safety matters to create a good working environment and protect the physical and mental health and safety of employees. Refer to Page 115 of this annual report.	None
(4) Has the Company established effective career development training plans?	✓		(4) The Company spares no effort in the cultivation of talent excellence. In addition to budgeting for employees' further study, the Company has designed in-house training courses to provide a challenging and learning environment. Refer to Page 112~113 of this annual report.	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
(5) Has the Company complied with relevant laws and regulations and international standards for the health and safety of customers, customer privacy, marketing and labeling of products and services, and formulated relevant consumer protection policies and complaint procedures?	✓		(5) A. The Company conducts relevant policies and complaint procedures to protect consumers' rights, such as the "Regulations of Customer Satisfaction", the "Regulations of Handling Customer Complaints", the "Regulations of Handling Customer Returns or Refunds" and "The Whistle-blowing System", so as to safeguard customers' rights. B. The Company conducts “The Best Practice Principles of Ethical Corporate Management” and the Legal & Intellectual Property Division engaged in legal affairs, intellectual property management and advisory services, etc.	None
(6) Has the Company have formulated a supplier management policy which requires suppliers to comply with the relevant regulations on issues such as environmental protection, occupational safety and health, or labor rights, and how their implementation is?	✓		(6) A. The Company communicates with and encourages its suppliers to meet the requests for quality and environmental protection, in addition to meet the Company's supplier management policy to become qualified suppliers, continue to claim to supplier to compliance with the green environmental protection laws or regulations, and promote all kinds of policies for environmental protection. B. The Company requires its suppliers to conduct self-evaluation, and site audits according to the self-evaluation results, and design training courses for its suppliers irregularly through the system or site communication, so that they can meet the requirements of the Company.	None
5. Enhanced Information Disclosure				
(1) Does the Company disclose relevant	✓		(1) The policy of corporate social responsibility is declared on the	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
and reliable CSR information on its website and the Taiwan Stock Exchange website?			Holtek website to show information related to corporate social responsibility. Refer to the Holtek website and the TWSE's Market Observation Post System.	
<p>6. If the company has established its corporate social responsibility code of practice according to “the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies”, describe the operational status and differences.</p> <p>The Company conducts "The Best Practice Principles of Corporate Social Responsibility" and its operational status does not differ from the “Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies”.</p>				
<p>7. Other important information to facilitate better understanding of the company’s implementation of corporate social responsibility:</p> <p>Refer to the Holtek website for its corporate social responsibility implementation status: http://www.holtek.com.tw/web/guest/responsibility.</p>				

Note: The Company have conducted risk assessments of environmental, social and corporate governance issues related to its operations in accordance with the materiality principles, and formulated relevant risk management policies or strategies, the policy of risk management is as below:

Materiality principles	Issues in risk assessment	Policies of risk management
Environment	Environmental Protection	The Company conducts environmental protection measures in accordance with relevant laws or regulations. Dedicated personnel is engaged in reviewing international environmental trends quarterly, strengthening the environmental management system, the development of green products and green the supply chain in order to ensure the competitiveness of the industry. Internal education training is held to make staffs realize the impacts of climate change happened.
Society	Supply Chain Management	<p>To take appropriate contingency measures in case of any emergencies or accidents that may occur to the supplier due to human or natural factors when considering the relevant impacts on the R&D development, production, sales and lead time and the interests of the customers:</p> <p>1. Regular measures: Keep a proper quantity of inventory in repository which is located in any</p>

Materiality principles	Issues in risk assessment	Policies of risk management
		<p>warehouses of the cooperated factories according to the place where products are stored.</p> <p>2. Extraordinary measures: An emergency response team will be formed to cope with business assessment and contingency plan will be prepared, and then these plans will be transferred to relevant departments for execution until the situation is resolved or production returns to normal.</p>
Corporate Governance	Financial Risk Management	<p>1. Interest rate: The impact of interest rate fluctuation does not currently have a significant impact on the Company's profits and business operations. The cash equivalent position of the Company is mainly located in fixed deposits and bond funds and the financial institutions that the Company deals with have global records and capital so as to obtain stable and safe investment returns.</p> <p>2. Foreign exchange rates: In order to avoid the significant impact of foreign exchange rate fluctuations on the Company's revenue and profit, the Company has a designated finance department to monitor exchange rate movements in the foreign exchange market, to collect relevant information and to take the following specific measures:</p> <p>(1) The Sales Division will carefully evaluate foreign exchange rate trends before offering customer quotes. It will also comprehensively consider the factors affecting exchange rate fluctuations and adopt a market-based exchange rate as the basis of sales quotation so as to reduce the impact of spot exchange rate changes on the Company's revenues and profits.</p> <p>(2) In addition to remaining in close contact with banks and financial institutions in order to fully follow foreign exchange rate trends, the finance department will regularly review their operating strategies and risk control procedures to be able to respond to forex volatility. The Company uses foreign currency derivative contracts such as currency forwards to protect against currency exchange rate risks associated with non-NT dollar denominated currency positions.</p> <p>(3) In adjusting to their foreign currency position according to the actual capital demand or exchange rate trends, the Company takes revenues to pay accounts payable using the same currency from multiple foreign currency accounts. This acts as a natural hedge, which is a principle of the Company's exchange strategy.</p> <p>3. Inflation: The impact of inflation does not currently have a significant impact on the Company's</p>

Materiality principles	Issues in risk assessment	Policies of risk management
		profits and business operations.
	Information Security Management	<p>The Total Information System Division is responsible for information security planning and regular reports to the general manager's office on the implementation of information security policies to control and maintain important operational functions such as operations and accounting, etc. The control operations are as follows:</p> <ol style="list-style-type: none"> 1. Endpoint protection: It includes antivirus software and maintain updates. Operating systems and software will be kept updated at all times to effectively decrease vulnerability and reduce risks. 2. Network security: It includes new generation firewall, web access protection and threat Prevention mechanism. 3. Data protection: The Company's important data is backed up using its backup systems. The backup data is immediately saved and transferred to a remote location for the network and backup systems. 4. Network system checking mechanism: Executing self-detection and outsourcing testing so as to ensure the safety of the server of the Company.

3.4.6 Ethical Corporate Management

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures				
(1) Did the company develop ethical corporate management policies approved by the board of directors and clearly state its policies and practices of ethical corporate management in the regulations and external documents? Are the Board of Directors and the senior management implementing the commitment to business policies?	✓		(1) The Company conducts the "Best Practice Principles of Ethical Corporate Management" in October, 2013. The directors and managers of the Company shall exercise the due care of good administrators to urge the company to prevent unethical conduct, always review the results of the preventive measures and continually make adjustments so as to ensure thorough implementation of its ethical corporate management policies.	None
(2) Did the company establish the assessment system for the risks of unethical behaviors and regularly analyze and assess the business activities with higher risks of unethical behaviors within its business scope? Furthermore, did the company establish prevention programs against unethical behaviors, which at least covered the prevention measures for the behaviors in Article 7, Paragraph 2 of "Ethical Corporate Management Best Practice Principles for	✓		(2) The Company conducts the "Best Practice Principles of Ethical Corporate Management". The directors and managers shall analyze which business activities within their business scopes which are possibly at a higher risk of being involved in an unethical conduct. All prevention measures for the behaviors in Article 7, Paragraph 2 of "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" has been taken, in order to strengthen the preventive measures for achieving better implementation of ethical management.	None

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
<p>TWSE/GTSM Listed Companies”?</p> <p>(3) Has the Company clearly established and implemented operating procedures, code of conduct, penalties for violation and complaint system in the prevention programs against unethical behaviors as well as reviewed and revised the aforementioned programs regularly?</p>	✓		<p>(3) The Company conducts the "Whistle-blowing System", the "Best Practice Principles of Ethical Corporate Management" and the "Codes of Ethical Conduct of Directors' and Managers". The Company has contained these abovementioned regulations in the Company's internal policies and new staff training materials. Through the internal audit system, the Company establishes a strict prevention system to prevent dishonest behavior from taking place in a more effective manner.</p>	None
<p>2. Facilitation of Ethical Corporate 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) Has the company established units exclusive for the promotion of ethical corporate management, which are affiliated under board of directors and will report regularly (at least once a year) to board of directors about the programs, supervision and execution situations for the ethical corporate management policies and the prevention against unethical</p>	<p>✓</p> <p>✓</p>		<p>(1) The Company shall avoid engaging in business transactions with its agents, suppliers, clients or trading counterparties involved in unethical conduct and should at any time terminate or rescind the contracts with any trading counterparties. The Company shall list them as the objects of refusal to deal with, in order to implement the Company's ethical management policy.</p> <p>(2)</p> <p>A. The Resource Management Center is responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. The Sales Division, Design Center, Product Center and Quality Assurance & Reliability Division shall be in charge of the following matters, and report to the Board of Directors at least once a year (report to the Board of Directors' Meeting in July, 2019).</p>	<p>None</p> <p>None</p>

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
behaviors?			B. The Company regularly plans training courses related to three codes and practical cases of ethical management, corporate governance and corporate social responsibility, the impact of economic substantive law and global anti-avoidance on corporate governance from the perspective of directors and supervisors, accounting system, internal control, copyright protection and other related courses. In 2019, the Company provided nearly 126 hours of training and a total of 115 attendees participated in the above training courses.	
(3) Does the company establish policies to prevent conflicts of interests, provide appropriate communication and complaint channels and implement such policies properly?	✓		(3) The Company conducts the "Best Practice Principles of Ethical Corporate Management" and the "Whistle-blowing System" for preventing conflicts of interests and establishing appropriate representation channels. If any dishonesty or illegal conduct is discovered or reported, the dedicated personnel shall immediately handle it.	None
(4) Has the Company established effective accounting systems and internal control systems for implementing Ethical Corporate Management and has its internal audit unit developed relevant audit programs according to the assessment results for the risks of unethical behaviors as well as reviewed compliance to prevention against unethical behaviors or entrusted accountants to conduct the review?	✓		(4) The Company establishes a complete and effective accounting system and internal control system. The internal auditing department shall continuously inspect business activities within their business scopes which are possibly at a higher risk of being involved in an unethical conduct and report results to the Audit committee and the Board of Directors'.	None

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
(5) Does the company provide internal and external ethical conduct training programs on a regular basis?	✓		(5) The Company conducts the "Best Practice Principles of Ethical Corporate Management", the "Codes of Ethical Conduct of Directors' and Managers'" and the "Rules of Integrity for the employees" for all directors, managers and employees to follow.	None
3. Implementation of Complaint Procedures				
(1) Does the company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received?	✓		(1) The Company conducts the "Whistle-blowing System" and the "Rules of Integrity for the employees", which will be handled by the designated personnel. If the whistleblowing issues involve general employees, it shall be reported to the head of department; Any tip involving a director or senior manager, the designated personnel shall prepare a report and notify the independent directors.	None
(2) Has the Company established standard operating procedures for the investigation on complaints and the follow-up measures to be adopted after the investigation is completed as well as the relevant confidentiality mechanisms?	✓		(2) A. The Company conducts the "Whistle-blowing System" for executing investigation and relevant confidentiality mechanism. After issuing the investigation report, the prosecution, the investigation process, the survey results should be retained in paper documents for confidentiality, and saved for 5 years, the preservation of electronic means to whom. The relevant information shall be kept until the end of the litigation before the expiry of the period of preservation. B. For the prosecution of the case is verified, the relevant units should review the relevant internal control system and operating procedures, and to improve measures to prevent the same situation from happening again. Reporting to the Board of Directors on how to report the cases, ways of handling them and follow-up review and improvement measures by	None

Assessment Items	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Summary	
(3) Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	✓		the responsible units. (3) The Company shall provide the legitimate and independent whistleblowing channel and keep confidentiality of the identity of whistle-blowers and the content of reported cases to maintain the personal safety of the whistleblowers.	None
4. Information Disclosure Does the company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?	✓		The Company conducts "The Best Practice Principles of Ethical Corporate Management" and the "Codes of Ethical Conduct of Directors' and Managers" which have been disclosed on Holtek's website and the TWSE's Market Observation Post System.	None
5. If the company has established corporate governance policies based on Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any discrepancy between the policies and their implementation: The Company conducts "The Best Practice Principles of Ethical Corporate Management" and its operational status does not differ from the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies".				
6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy): Up until now, there has been no major violation of the integrity management regulations, which has affected the Company's operation.				

7. How they may be found shall be disclosed if the Company has established Corporate Governance Principles and related regulations:

Please refer to Holtek's Website: <http://www.holtek.com.tw> and Market Observation Post System <http://mops.twse.com.tw>.

8. Other Important Information Regarding Corporate Governance:

Further education of directors, accounting supervisors and audit supervisors:

Position	Name	Date	Professional Development Institutions	Course Name	Hours
Chairman	Wu Chi-Yung	2019/03/06	Taiwan Corporate Governance Association	Codes and practical cases of ethical management, corporate governance and corporate social responsibility	3
		2019/11/28	Taiwan Corporate Governance Association	The impact of economic substantive law and global anti-avoidance on corporate governance from the perspective of directors and supervisors	3
Director	Gau, Kuo-Tung	2019/03/06	Taiwan Corporate Governance Association	Codes and practical cases of ethical management, corporate governance and corporate social responsibility	3
		2019/11/28	Taiwan Corporate Governance Association	The impact of economic substantive law and global anti-avoidance on corporate governance from the perspective of directors and supervisors	3
Director	Chang, Chi	2019/03/06	Taiwan Corporate Governance Association	Codes and practical cases of ethical management, corporate governance and corporate social responsibility	3
		2019/11/28	Taiwan Corporate Governance Association	The impact of economic substantive law and global anti-avoidance on corporate governance from the perspective of directors and supervisors	3
Director	Lin, Cheng-Fung	2019/03/06	Taiwan Corporate Governance Association	Codes and practical cases of ethical management, corporate governance and corporate social responsibility	3
		2019/11/28	Taiwan Corporate Governance Association	The impact of economic substantive law and global anti-avoidance on corporate governance from the perspective of directors and supervisors	3
Director	Tsai, Jung-Tsung	2019/08/02	Securities and Futures Institute	2019 legal compliance seminar for insider equity transactions of a publicly issued companies	3
		2019/10/25	Securities and Futures Institute	2019 preventive insider trading seminar	3
		2019/11/21	Taiwan Stock Exchange Corporation	Seminar of the ways to effective functioning of directors	3
		2019/11/28	Taiwan Corporate Governance Association	The impact of economic substantive law and global anti-avoidance on corporate governance from the perspective of directors and supervisors	3
Director	Wang, Jen-Chung	2019/03/06	Taiwan Corporate Governance Association	Codes and practical cases of ethical management, corporate governance and corporate social responsibility	3
		2019/11/28	Taiwan Corporate Governance Association	The impact of economic substantive law and global anti-avoidance on corporate governance from the perspective of directors and supervisors	3
Independent Director	Lu, Cheng-Yueh	2019/03/06	Taiwan Corporate Governance Association	Codes and practical cases of ethical management, corporate governance and corporate social responsibility	3
		2019/11/28	Taiwan Corporate Governance Association	The impact of economic substantive law and global anti-avoidance on corporate governance from the perspective of directors and supervisors	3

Position	Name	Date	Professional Development Institutions	Course Name	Hours
Independent Director	Hsing, Chih-Tien	2019/03/06	Taiwan Corporate Governance Association	Codes and practical cases of ethical management, corporate governance and corporate social responsibility	3
		2019/11/28	Taiwan Corporate Governance Association	The impact of economic substantive law and global anti-avoidance on corporate governance from the perspective of directors and supervisors	3
Independent Director	Kuo, Tai-Haur	2019/03/06	Taiwan Corporate Governance Association	Codes and practical cases of ethical management, corporate governance and corporate social responsibility	3
		2019/08/06	Taiwan Corporate Governance Association	Obligations and responsibilities of the company and its directors in accordance with the Securities and Exchange Act	3
		2019/08/06	Taiwan Corporate Governance Association	Corporate governance, securities laws and relevant regulations	3
Head of Accounting	Liao, Ming-Tung	2019/11/14 ~ 2019/11/15	Accounting Research and Development Foundation	Advanced training courses of the accounting officers of a publicly issued company	12
Head of Internal Audit	Lee, Wen-Te	2019/04/15 ~ 2019/04/16	Accounting Research and Development Foundation	Advanced training courses of the internal auditing officers of a publicly issued company	12

9. Matters that should be disclosed regarding the implementation of the internal control system:

(1) Statement of Internal Control System:

Holtek Semiconductor Inc.

Internal Control System Statement

Date: March 05, 2020

For the Company's internal control system of 2019, we would like to declare as follows according to the results of spontaneous inspections:

- I. The Company knows that establishing, enforcing, and maintaining an internal control system is the responsibility of the Company's Board of Directors and managers and has such a system in place already. It is meant to reasonably ensure fulfillment of the operational efficacy and efficiency (including profits, performance, and protection of asset security), reliability of financial reports, and compliance with applicable laws and regulations, among other goals.
- II. The internal control system has its inherited restrictions that cannot be overcome with improved design. An effective internal control system can also only reasonably ensure the fulfillment of the three goals stated above and its effectiveness may change as the environment or situation changes. There is a self-surveillance mechanism; however, built inside the internal control system of the Company that helps the Company take a corrective action against deficiencies confirmed.
- III. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Governing Regulations for Public Company's Establishment of Internal Control System" (hereinafter referred to as "Governing Regulations") that are related to the effectiveness of internal control systems. The items adopted in the Governing Regulations for determining the internal control system are the five constitutional elements of the internal control system divided according to the management and control process: 1. control environment, 2. risk assessment, 3. control process, 4. information and communication, and 5. supervision. Each element further encompasses several items. Please refer to "Governing Regulations" for details.
- IV. The Company has adopted the abovementioned determining items and conducted inspection of the design and effectiveness of its internal control system.
- V. Pursuant to the results of the abovementioned inspections, the Company is of the view that the design and implementation of its internal control system as of December 31, 2019 (including its supervision and management of subsidiaries), including its awareness the extent by which the operating effects and efficiency goals are fulfilled, reliability of financial reporting, and compliance with relevant laws and regulations, are such that it is effective and capable of reasonably ensuring that the aforementioned goals can be achieved.
- VI. This Statement constitutes a major part of the Company's Annual Report and the Company's Prospectus that are made available to the public. The Company shall be legally liable under Articles 20, 32, 171 and 174 of the Securities and Exchange Act with respect to any unlawful aspects such as falsehood or concealment of facts in relation to the aforesaid statement.
- VII. This Statement was approved at the meeting of the Company's Board of Directors on March 05, 2020 with no Directors expressing dissent out of the 9 Directors in attendance.

Holtek Semiconductor Inc.

Chairman: Wu, Chi-Yung

General Manager: Gau, Kuo-Tung

(2) When a CPA is authorized to review the internal control system, the review report prepared by the CPAs shall be disclosed: None.

10. In the most recent year and up to the date of the annual report, where the company and its internal personnel were punished in accordance with the law, or the company has punished its internal personnel for violating the provisions for the internal control system, if the results of penalty could make a significant impact on shareholders' equity or the price of securities, the content of the penalty, major faults and the circumstances of improvement shall be listed here: None

11. Major Resolutions of the Annual Shareholders' Meeting, the Board of Directors' Meetings and the Audit Commission's Meetings:

(1) Major resolutions of 2019 Annual Shareholders' Meeting:

Items	Major Resolutions	Implementation Status
Approval items	<p>A. Adoption of the 2018 business report and financial statements.</p> <p>B. Adoption of the 2018 earnings distribution.</p>	<p>A. Resolution passed.</p> <p>B. Approved a cash dividend of NT\$4.208/per shares. The record date was August 19, 2019. The amount of cash dividend was NT\$ 951,715,786 which was distributed on August 29, 2019.</p>
Discussion items and election of directors	<p>A. Discussion of cash distribution from legal reserve</p> <p>B. Amendment to the Company's "Articles of Incorporation"</p> <p>C. Amendment to the "Procedures for Acquisition or Disposal of Assets and Financial Derivatives Transactions"</p> <p>D. Amendment to the "Procedures for Lending Funds to Other Parties"</p> <p>E. Amendment to the "Procedures for Endorsements/Guarantees"</p> <p>F. Election of the 8th term directors (including independent directors)</p> <p>G. Permit of directors' engagement in competitive conduct</p>	<p>A. Approved a cash dividend from legal reserve of NT\$0.492/per shares. The record date was August 19, 2019. The amount of cash dividend was NT\$ 111,274,754 which was distributed on August 29, 2019.</p> <p>B. Resolution passed and execution completed as resolved in the Shareholders' Meeting.</p> <p>C. Resolution passed and execution completed as resolved in the Shareholders' Meeting.</p> <p>D. Resolution passed and execution completed as resolved in the Shareholders' Meeting.</p> <p>E. Resolution passed and execution completed as resolved in the Shareholders' Meeting.</p> <p>F. Election Result: 9 members of the Board of Directors (including 3 Independent Directors): Wu Chi-Yung, Gau, Kuo-Tung, Chang, Chi, Lin, Cheng-Fung, Tsai, Jung-Tsung, Wang, Jen-Chung, Lu, Cheng-Yueh (Independent Directors), Hsing, Chih-Tien (Independent Directors) and Kuo, Tai-Haur (Independent Directors).</p> <p>G. Resolution passed. The material information was posted and announced on May 29, 2019.</p>

(2) During the 2019 calendar year and as of the printing date of this annual report, 9 Board of Directors' Meetings were convened.

Major resolutions approved at these meetings are summarized below:

Date	Major Resolutions
Jan. 28, 2019 The 7 th Term, the 17 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the allocation of 2018 employee bonuses and directors' remuneration. 2. Approved 2018 consolidated and individual financial statements. 3. Approved the amendment to the Articles of Incorporation. 4. Approved the assignment of Financial Officer. 5. Approved the assignment of Spokesperson and Acting Spokesperson. 6. Approved the assignment of President of Holtek Semiconductor Inc.'s Hong Kong Subsidiary. 7. Approved the amendment of authorized signatures of bank accounts on behalf of Holtek Semiconductor Inc.'s Hong Kong Subsidiary. 8. Approved the increased investment of MCU Holdings Ltd. to JXY Electronics Corporation. 9. Approved the amendment to the Board of Directors' Self-Assessment of Performance and 2018 performance reports of Board of Directors, Compensation Committee Charter and Audit Committee Charter. 10. Approved the performance assessments and remuneration of directors and managers.
Mar. 06, 2019 The 7 th Term, the 18 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the 2018 business report. 2. Approved the distribution of 2018 profits and cash dividends. 3. Approved the distribution of cash dividends from legal reserve. 4. Approved the amendment to the Procedures for Acquisition or Disposal of Assets and Financial Derivatives. 5. Election of the 8th term Directors (including independent directors) will be proposed at 2019 Annual Shareholders' Meeting in accordance with the Company's Articles of Incorporation . 6. Approved the permit of directors' engagement in competitive conducts. 7. Approved the convention of 2019 Annual Shareholders' Meeting. 8. Approved the Internal Control System Statement. 9. Approved the assessment report of CPA's independence and competence.

Date	Major Resolutions
April 15, 2019 The 7 th Term, the 19 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the examination of nominees of 8th term directors (including independent directors). 2. Approved the amendment to the Procedures for Lending Funds to Other Parties. 3. Approved the amendment to the Procedures for Endorsements/Guarantees. 4. Approved the amendment of subjects for convening 2019 Annual Shareholders' Meeting.
April 29, 2019 The 7 th Term, the 20 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the disposal the shares of GOSAN Technology Co., Ltd. 2. Approved the amendment to the Rules and Procedures of Board of Directors Meetings. 3. Approved the performance assessments and remuneration of directors and managers.
May 09, 2019 The 7 th Term, the 21 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the assignment of managers.
May 29, 2019 The 8 th Term, the 1 st Board Meeting	<ol style="list-style-type: none"> 1. The Election of the 8th Term Chairman of Holtek Semiconductor Inc. 2. Approved the appointment of the 4th Term Compensation Committee members.

Date	Major Resolutions
<p>July 29, 2019</p> <p>The 8th Term, the 2nd Board Meeting</p>	<ol style="list-style-type: none"> 1. Approved the ex-dividend record date and cash dividend distribution date for 2018 earnings distribution. 2. Approved the distribution date of cash distribution from legal reserve. 3. Approved the name change of Holtek's sub-subsidiary-BestComm RF Electronics Inc.. 4. Approved the capital increase of JXY Electronics (Shenzhen) Corporation invested by JXY Electronics Corporation. 5. Approved the capital increase of Quanding Technology Holding Ltd. invested by MCU Holdings Ltd.. 6. Approved the establishment of Hong Kong subsidiary of Holtek's sub-subsidiary-Best Health Electronics Corporation. 7. Approved the establishment of a new company in China invested by Holtek's sub-subsidiary-Best Solution Technology Inc.. 8. Approved the establishment of Hong Kong subsidiaries of the Holtek's affiliates. 9. Approved the permit of directors' engagement in competitive conducts. 10. Approved the permit of managers' engagement in competitive conducts. 11. Approved the performance assessments and remuneration of directors and managers.
<p>Oct. 28, 2019</p> <p>The 8th Term, the 3rd Board Meeting</p>	<ol style="list-style-type: none"> 1. Approved the purchase of the directors and managers liability insurance. 2. Approved the establishment of Hong Kong subsidiaries of the Holtek's affiliates. 3. Approved the permit of directors' engagement in competitive conducts. 4. Approved the 2020 audit operational risk assessment reports and annual audit plans. 5. Approved the issuance of short-term currency exchange credit of Bank Sinopac Hsinchu Branch. 6. Approved the 2020 business plan. 7. Approved the performance assessments and remuneration of directors and managers.

Date	Major Resolutions
Feb. 05, 2020 The 8 th Term, the 4 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the allocation of 2019 employee bonuses and directors' remuneration. 2. Approved 2019 consolidated and individual financial statements. 3. Approved the capital increase of BestComm RF Electronics (Dongguan) Inc. invested by BestComm RF Electronics Inc.. 4. Approved the investment of MCU Holdings Ltd. to Best Motor Control Technology Corporation (temporary name) and Best Motor Control Technology (Hangzhou) Corporation (temporary name). 5. Approved the permit of directors' engagement in competitive conducts. 6. Approved the permit of managers' engagement in competitive conducts. 7. Approved the amendment to the Rules of internal control system. 8. Approved the performance assessments and remuneration of directors and managers.
Mar. 05, 2020 The 8 th Term, the 5 th Board Meeting	<ol style="list-style-type: none"> 1. Approved the 2019 business report 2. Approved the 2019 earnings distribution 3. Approved the cash distribution from legal reserve 4. Approved the permit of directors' engagement in competitive conducts 5. Approved the convention of 2020 Annual Shareholders' Meeting 6. Approved the Internal Control System Statement 7. Approved the assessment report of CPA's independence and competence

12. Major issues of record or written statements made by any Directors dissenting to major resolutions passed by the Board of Directors: None.
13. Resignation or dismissal of the Company's key individuals, including the Chairman, CEO, and heads of Accounting, Finance, Auditing and R&D:

As of April 10, 2020

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
Head of Finance	Li, Pei-Ying	2004/05/11	2019/02/01	Retirement for personal plan
Head of Finance	Liao, Ming-Tung	2019/02/01	-	Position Adjustment

3.5 Information on the Fees for CPAs

3.5.1 The non-audit fee paid to certified CPA, certified Office of CPA and its affiliated companies accounts for over 1/4 to audit fee:

Unit: Value in NT\$ thousands

CPA Firm	Name of CPA	Audit Fee	Non-Audit Fee					Inspection period	Remarks
			System Design	Company Registration	Human Resource	Others	Sub total		
KPMG	Yu, Wan-Yuan Tseng, Mei-Yu	3,320	0	0	0	620	620	2019/01/01~2019/12/31	Tax Service

3.5.2 Alter the CPA Firm and the audit fee in altering year is less than that in the previous year:

None.

3.5.3 The audit fee is reduced by over 10% compared with the previous year:

None.

3.6 Information on the Replacement of CPAs:

None.

3.7 Where the Company's Chairman and Management Team Members in charge of Finance or Accounting Matters has Held a Position at the Accounting Firm of its Independent Auditors or at an Affiliated Enterprise in the Most Recent Year:

None.

3.8 Transfer of Stock Options and Changes in Equity Pledge of Directors, Managers, and Shareholders Holding More Than 10% of Shares in the Latest Year and as of the Date of Printing of Annual Report

3.8.1 Changes in Shareholding of Directors, Managers and Major Shareholders

Unit: Shares

Title	Name	2019		As of March 31, 2020	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman	Wu Chi-Yung	—	—	—	—
Director and General Manager	Gau, Kuo-Tung	—	—	—	—
Director and Vice President	Chang, Chi	—	—	—	—
Director and Vice President	Lin, Cheng-Fung	—	—	—	—
Former Director and VP	Li, Pei-Ying (Date of Ceasing: May 29, 2019)	—	—	—	—
Director and Vice President	Tsai, Jung-Tsung	—	—	—	—
Director	Wang, Jen-Chung	—	—	—	—
Independent Director	Lu, Cheng-Yueh	—	—	—	—
Independent Director	Hsing, Chih-Tien	9,000	—	—	—
Independent Director	Kuo, Tai-Haur	—	—	—	—
Assistant Vice President	Wu, Shao-Nan	—	—	—	—
Assistant Vice President	Wu, Der-Chwan	—	—	—	—
Assistant Vice President	Yu, Kuo-Cheng	—	—	—	—
Assistant Vice President	Wang, Yuh-Dinhn	—	—	—	—
Assistant Vice President	Wang, Min-Kun	—	—	—	—
Assistant Vice President	Liu, Yuan-Ho	—	—	—	—
Assistant Vice President	Pan, Chien-Chou (Note 1)	—	—	67,000	—
Head of Accounting	Liao, Ming-Tung	2,000	—	—	—
Head of Finance	Liao, Ming-Tung (Note 2)	2,000	—	—	—
Major Shareholder (Note 3)	United Microelectronics Corp.	(2,414,000)	—	—	—

Note 1 : Mr. Pan, Chien-Chou, the former Director was appointed as AVP of Product Center on May 20, 2019.

Note 2 : Mr. Liao, Ming-Tung was appointed as the head of finance department with the effective date of February 1, 2019.

Note 3 : United Microelectronics Corp., ipso facto, was automatically removed from a major shareholder of the Company with the effective date of June 24, 2019.

3.8.2 Shares Trading with Related Parties:

None

3.8.3 Shares Pledge with Related Parties:

None

3.9 Information Disclosing the Relationship between Any of the Company's Top Ten Shareholders

As of March 29, 2020; Unit: Shares

Name	Current Shareholding		Spouse's/minor's Shareholding		Specific Person Shareholding		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Re- marks
	Shares	%	Shares	%	Shares	%	Name	Relation-ship	
United Microelectronics Corporation Representative: Hung, Chia-Tsung	22,144,257	9.79%	—	—	—	—	None	None	
Wu, Chi-Yung	7,665,809	3.39%	2,745,598	1.21%	—	—	Chang, An-Hua	Spouse	
iSharesIV Public Limited Company	7,200,000	3.18%	—	—	—	—	None	None	
Gau, Kuo-Tung	6,701,176	2.96%	—	—	—	—	None	None	
Qi Sheng Investment Ltd. Representative: Chen, Chia-Hung	5,815,703	2.57%	—	—	—	—	None	None	
Bo-Ding Investment Ltd. Representative: Chang, An-Hua	4,624,841	2.04%	—	—	—	—	Wu, Chi-Yung	Spouse	

Name	Current Shareholding		Spouse's/minor's Shareholding		Specific Person Shareholding		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Re- marks
	Shares	%	Shares	%	Shares	%	Name	Relation-ship	
National Culture and Arts Foundation Representative: Lin, Man-Li	4,538,000	2.01%	—	—	—	—	None	None	
Quant Foreign Value Small Cap Fund	4,380,500	1.94%	—	—	—	—	None	None	
Norges Bank	3,999,000	1.77%	—	—	—	—	None	None	
Fubon Hyundai Life Insurance Co., Ltd.	3,893,000	1.72%	—	—	—	—	None	None	

3.10 Ownership of Shares in Affiliated Enterprises

As of December 31, 2019

Affiliated Enterprises (Note)	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares (thousands)	%	Shares (thousands)	%	Shares (thousands)	%
Holtek Semiconductor Holding (BVI) Ltd.	15,253	100%	—	—	15,253	100%
Kingtek Semiconductor Holding (BVI) Ltd.	2,000	100%	—	—	2,000	100%
Sigmos Holdings Ltd.	200	100%	—	—	200	100%
MCU Holdings Ltd.	500	100%	—	—	500	100%
Holtek Semiconductor (India) Private Limited	6	0.10%	6,479	99.90%	6,485	100%
Holtek Investment Co., Ltd.	42,983	100%	—	—	42,983	100%

Note: Affiliated Enterprises are accounted for using equity method by the Company.

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital (NT\$ thousands)	Capital Increased by Assets Other than Cash	Other
1998/10	10	100,000	1,000,000	40,000	400,000	The Company was established and subscribed NT\$ 340,000 thousand for paid-in capital	Licensing Technology of in exchange in the stocks valued NT\$ 60,000 thousand	--
1999/04	10	100,000	1,000,000	100,000	1,000,000	Raise NT\$ 600,000 thousand for capital	None	--
2000/05	10	180,000	1,800,000	122,000	1,220,000	Retained earnings of NT\$ 220,000 thousand transferred to capital	None	Note 1
2001/04	10	180,000	1,800,000	153,380	1,533,800	Retained earnings of NT\$ 313,800 thousand transferred to capital	None	Note 2
2002/06	10	180,000	1,800,000	175,118.7	1,751,187	Retained earnings of NT\$ 217,387 thousand transferred to capital	None	Note 3
2003/06	10	260,000	2,600,000	183,400	1,834,000	Retained earnings of NT\$ 82,813 thousand transferred to capital	None	Note 4
2004/07	10	270,000	2,700,000	194,100	1,941,000	Retained earnings of NT\$ 107,000 thousand transferred to capital	None	Note 5
2005/06	10	290,000	2,900,000	205,409.5	2,054,095	Retained earnings of NT\$ 113,095 thousand transferred to capital	None	Note 6
2005/08	10	290,000	2,900,000	206,614.5	2,066,145	Employee stock options was exercised for NT\$ 12,050 thousand for capital	None	Note 7
2005/10	10	290,000	2,900,000	206,695	2,066,950	Employee stock options was exercised for NT\$ 805 thousand for capital	None	Note 7
2006/01	10	290,000	2,900,000	207,244.5	2,072,445	Employee stock options was exercised for NT\$ 5,495 thousand for capital	None	Note 7, 8
2006/04	10	290,000	2,900,000	207,451.5	2,074,515	Employee stock options was exercised for NT\$ 2,070 thousand for capital	None	Note 7, 8
2006/08	10	290,000	2,900,000	211,126.1	2,111,261	Retained earnings of NT\$ 36,746 thousand transferred to capital	None	Note 9
2006/08	10	290,000	2,900,000	212,100.1	2,121,001	Employee stock options was exercised for NT\$ 9,740 thousand for capital	None	Note 7, 8, 10

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital (NT\$ thousands)	Capital Increased by Assets Other than Cash	Other
2006/10	10	290,000	2,900,000	212,210.35	2,122,103.5	Employee stock options was exercised for NT\$ 1,102.5 thousand for capital	None	Note 7, 8, 10
2007/01	10	290,000	2,900,000	212,470.1	2,124,701	Employee stock options was exercised for NT\$ 2,597.5 thousand for capital	None	Note 7, 8, 10
2007/04	10	290,000	2,900,000	212,759.35	2,127,593.5	Employee stock options was exercised for NT\$ 2,892.5 thousand for capital	None	Note 7, 8, 10
2007/08	10	290,000	2,900,000	216,487.05	2,164,870.5	Retained earnings of NT\$ 37,277 thousand transferred to capital	None	Note 11
2007/08	10	290,000	2,900,000	217,550.8	2,175,508	Employee stock options was exercised for NT\$ 10,637.5 thousand for capital	None	Note 7, 8, 10
2007/11	10	290,000	2,900,000	217,843.3	2,178,433	Employee stock options was exercised for NT\$ 2,925 thousand for capital	None	Note 7, 8, 10
2008/02	10	290,000	2,900,000	218,005.3	2,180,053	Employee stock options was exercised for NT\$ 1,620 thousand for capital	None	Note 7, 8, 10
2008/04	10	290,000	2,900,000	218,297.3	2,182,973	Employee stock options was exercised for NT\$ 2,920 thousand for capital	None	Note 7, 8, 10
2008/09	10	300,000	3,000,000	220,470.4	2,204,704	Retained earnings of NT\$ 21,731 thousand transferred to capital	None	Note 12
2008/09	10	300,000	3,000,000	220,910.4	2,209,104	Employee stock options was exercised for NT\$ 4,400 thousand for capital	None	Note 7, 8, 10
2008/11	10	300,000	3,000,000	220,955.15	2,209,551.5	Employee stock options was exercised for NT\$ 447.5 thousand for capital	None	Note 7, 8, 10
2009/03	10	300,000	3,000,000	220,997.4	2,209,974	Employee stock options was exercised for NT\$ 422.5 thousand for capital	None	Note 7, 8, 10
2009/04	10	300,000	3,000,000	221,180.9	2,211,809	Employee stock options was exercised for NT\$ 1,835 thousand for capital	None	Note 7, 8, 10
2009/08	10	300,000	3,000,000	222,087.7	2,220,877	Retained earnings of NT\$ 9,068 thousand transferred to capital	None	Note 13

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital (NT\$ thousands)	Capital Increased by Assets Other than Cash	Other
2009/08	10	300,000	3,000,000	222,217.45	2,222,174.5	Employee stock options was exercised for NT\$ 1,297.5 thousand for capital	None	Note 8
2009/11	10	300,000	3,000,000	222,301.45	2,223,014.5	Employee stock options was exercised for NT\$ 840 thousand for capital	None	Note 8
2010/02	10	300,000	3,000,000	222,347.45	2,223,474.5	Employee stock options was exercised for NT\$ 460 thousand for capital	None	Note 8
2010/04	10	300,000	3,000,000	222,556.2	2,225,562	Employee stock options was exercised for NT\$ 2,087.5 thousand for capital	None	Note 8, 14
2010/08	10	300,000	3,000,000	222,666.2	2,226,662	Employee stock options was exercised for NT\$ 1,100 thousand for capital	None	Note 14, 15
2010/11	10	300,000	3,000,000	222,798.7	2,227,987	Employee stock options was exercised for NT\$ 1,325 thousand for capital	None	Note 14, 15
2011/02	10	300,000	3,000,000	223,044.2	2,230,442	Employee stock options was exercised for NT\$ 2,455 thousand for capital	None	Note 14, 15
2011/05	10	300,000	3,000,000	223,339.7	2,233,397	Employee stock options was exercised for NT\$ 2,955 thousand for capital	None	Note 14, 15
2011/08	10	300,000	3,000,000	223,598.45	2,235,984.5	Employee stock options was exercised for NT\$ 2,587.5 thousand for capital	None	Note 14, 15
2013/08	10	300,000	3,000,000	223,680.45	2,236,804.5	Employee stock options was exercised for NT\$ 820 thousand for capital	None	Note 15
2013/11	10	300,000	3,000,000	224,941.2	2,249,412	Employee stock options was exercised for NT\$ 12,607.5 thousand for capital	None	Note 15
2014/01	10	300,000	3,000,000	226,168.2	2,261,682	Employee stock options was exercised for NT\$ 12,270 thousand for capital	None	Note 15

Note 1: The Tai-Cai-Zheng-Yi No. 36989 letter dated May 15, 2000.

Note 2: The Tai-Cai-Zheng-Yi No. 116941 letter dated April 3, 2001.

Note 3: The Tai-Cai-Zheng-Yi No. 126989 letter dated May 17, 2002.

Note 4: The Tai-Cai-Zheng-Yi No. 0920128586 letter dated June 27, 2003.

Note 5: The Tai-Cai-Zheng-Yi No. 0930128187 letter dated May 25, 2004.

Note 6: The Jin-Cuan-Zheng-Yi No. 0940125322 letter dated June 24, 2005.

Note 7: The Tai-Cai-Zheng-Yi No. 0920110590 letter dated April 1, 2003.

Note 8: The Tai-Cai-Zheng-Yi No. 0920138382 letter dated August 22, 2003.

Note 9: The Jin-Cuan-Zheng-Yi No. 0950127323 letter dated June 29, 2006.

Note 10: The Tai-Cai-Zheng-Yi No. 0930128187 letter dated June 25, 2004.

Note 11: The Jin-Cuan-Zheng-Yi No. 0960031838 letter dated June 25, 2007.

Note 12: The Jin-Cuan-Zheng-Yi No. 0970034273 letter dated July 9, 2008.

Note 13: The Jin-Cuan-Zheng-Fa No. 0980031086 letter dated June 23, 2009.

Note 14: The Jin-Cuan-Zheng-Yi No. 0940135791 letter dated August 26, 2005

Note 15: The Jin-Cuan-Zheng-Yi No. 0960073308 letter dated December 31, 2007

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common stock	226,168,200 shares	73,831,800 shares	300,000,000 shares	Listed stock

Related information of the general declaration system: Not applicable.

4.1.2 Status of Shareholders

As of March 29, 2020

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	10	83	17,411	165	17,670
Shareholding (shares)	502,000	13,204,000	44,590,106	106,222,913	61,649,181	226,168,200
Percentage (%)	0.22%	5.84%	19.71%	46.97%	27.26%	100%

4.1.3 Shareholding Distribution Status

1. Common Shares

As of March 29, 2020

Class of Shareholding (Unit: Shares)	Number of Shareholders	Shareholding (Shares)	Percentage (%)
1 ~ 999	4,301	259,769	0.12
1,000 ~ 5,000	10,644	20,790,570	9.19
5,001 ~ 10,000	1,328	10,226,951	4.52
10,001 ~ 15,000	423	5,319,332	2.35
15,001 ~ 20,000	291	5,365,721	2.37
20,001 ~ 30,000	202	5,009,841	2.22
30,001 ~ 50,000	172	6,728,606	2.98
50,001 ~ 100,000	133	9,412,195	4.16

Class of Shareholding (Unit: Shares)	Number of Shareholders	Shareholding (Shares)	Percentage (%)
100,001 ~ 200,000	71	10,120,114	4.48
200,001 ~ 400,000	32	8,758,894	3.87
400,001 ~ 600,000	21	10,231,618	4.52
600,001 ~ 800,000	10	7,110,721	3.14
800,001 ~ 1,000,000	6	5,275,345	2.33
1,000,001 or over	36	121,558,523	53.75
Total	17,670	226,168,200	100.00

2. Preferred Shares: None.

4.1.4 List of Major Shareholders

Shareholders holding 5% or more of total shares or in the Top 10 stock option holding ratio list

As of March 29, 2020; Unit: Shares

Shareholder's Name	Shareholding	
	Shares	Percentage
United Microelectronics Corporation	22,144,257	9.79%
Wu, Chi-Yung	7,665,809	3.39%
iSharesIV Public Limited Company	7,200,000	3.18%
Gau, Kuo-Tung	6,701,176	2.96%
Qi Sheng Investment Ltd.	5,815,703	2.57%
Bo-Ding Investment Ltd.	4,624,841	2.04%
National Culture and Arts Foundation	4,538,000	2.01%
Quant Foreign Value Small Cap Fund	4,380,500	1.94%
Norges Bank	3,999,000	1.77%
Fubon Hyundai Life Insurance Co., Ltd.	3,893,000	1.72%

4.1.5 Related information of market price per share, net value, earnings and dividends for the past two years

Unit: Value in NT\$

Items	2018	2019	01/01/2020-03/31/2020
Market Price per Share			
Highest Market Price	88.00	78.70	77.70
Lowest Market Price	55.50	56.20	55.00
Average Market Price	72.45	68.99	68.42
Net Worth per Share			
Before Distribution	18.68	18.04	—
After Distribution	13.98	Note 5	—
Earnings per Share			
Weighted Average Shares (thousand shares)	226,168	226,168	226,168
Earnings Per Share	4.70	4.05	—
Dividends per Share			
Cash Dividends	4.70	Note 5	—
Stock Dividends			
• Dividends from Retained Earnings	—	—	—
• Dividends from Capital Surplus	—	—	—
Accumulated Undistributed Dividends (Note 1)	—	—	—
Return on Investment			
Price / Earnings Ratio (Note 2)	15.41	17.03	—
Price / Dividend Ratio (Note 3)	15.41	Note 5	—
Cash Dividend Yield Rate (Note 4)	6.49%	Note 5	—

Note 1: For the equity shares issuance criteria, if there are requirements that dividends not distributed for a specific year can be carried over to the year with earnings, the dividends that have not been paid up to the said year with earnings shall be disclosed separately.

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

Note 5: This have been approved by the Board of Directors' meeting on March 5, 2020. However, as of April 10, 2020, the printing date of the annual report, it has yet to be presented for approval at 2020 Annual Shareholders' Meeting.

4.1.6 Dividend Policy and Implementation Status

(1) Dividend Policy

When allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors. However, the company's accumulated losses shall have been covered.

If the Company has profit as a result of the yearly accounting closing, the Company shall first pay taxes, offset its losses in previous years and set aside a legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled the total capital of the Company, then set aside special capital reserve in accordance with relevant laws or regulations or as requested by business. Any rest balance, added to the accumulated undistributed earnings in previous years, the Board of Directors shall be allocated according to shareholders' meeting resolution.

The amount of dividends distributed to shareholders shall be no less than 50% of the distributable earnings of the year concerned and no less than 50% of the shareholder's dividends shall be in the form of cash.

(2) Proposed Distribution of Dividend

The portion of Unappropriated retained earnings was proposed to distribute cash of NT\$825,061,594 to shareholders. According to the register of shareholders on the record date, the cash distribution is approximately NT\$3.648 per share. Cash payment shall be rounded to one NTD. The portion of legal reserve was proposed to distribute cash of NT\$90,919,616 to shareholders. According to the register of shareholders on the record date, the cash distribution is approximately NT\$0.402 per share. The total amount of NT\$915,981,210 was proposed to distribute to shareholders and the cash distribution is approximately NT\$4.05 per share.

4.1.7 Impacts of free share assignment intended through the current shareholders meeting on the Company's operational performance and earnings per share: None.

4.1.8 Employee Bonus and Directors' and Supervisors' Remuneration

1. Information Relating to Employee Bonus and Directors' Remuneration set out in the Company's "Articles of Incorporation":

When allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors. However, the company's accumulated losses shall have been covered.

2. This forecast column of the employee and the amount of directors remuneration for assigned to the column base and in stock for the number of shares of calculation basis and actual dispatch if amount and estimated the number of columns diverge from the accounting treatment of:

The company shall, in accordance with the provisions of the articles of association of the company, provide remuneration for employees and directors in proportion to the current period expenses. If there is any difference between the amount as determined by the board of directors or the board of shareholders and the estimated amount, the difference shall be adjusted in the resolution year as to the current period expenses.

3. The Board of Directors has approved the remuneration:

(1) The annual remuneration for employees and directors which has been approved by the

Board of Directors, shall be NT\$109,967,512 and NT\$12,018,612, respectively, which are not different from the annual estimated amount recognized as current expenses.

- (2) The percentage of employee remuneration distributed by shares from the total amount of Net Income and total employee remuneration of entity or individual financial reports for the current period: None.
4. The actual distribution of the remuneration of employees and directors in the previous year (including the number of shares distributed, the amount and the share's market price), and the difference between such distribution and the remuneration of employees and directors shall be clearly stated, including the number of differences, the reasons for the difference and the follow-up situations:

The Board of Directors of the Company passed the resolution to allot NT\$129,225,211 for employees' bonuses in 2018, as well as NT\$14,248,357 for directors' remunerations in 2018, and all paid in cash. These actual payments match the original resolution and the figures decided upon by the Board of Directors.

4.1.9 Buyback of the Company stock: None.

4.2 Status of Corporate Bonds: None.

4.3 Status of Preferred Shares: None.

4.4 Status of Global Depository Receipts: None.

4.5 Status of Employee Stock Option Plan (ESOP): None.

4.6 Status of New Restricted Employee Shares: None.

4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

4.8 Financing Plans and Implementation: None.

V. Operational Highlights

5.1 Business activities

5.1.1 Business scope

1. Main areas of business operations

The Company is a leading Taiwan designer of professional ICs whose business area is mainly focused in the design and sales of microcontrollers and peripheral devices. The company's product range and related design services are driven largely by customer and market requirements.

2. Main revenue distribution

Product Category \ Year	2019
MCUs	76%
Peripheral ICs	24%
Total	100%

3. Present product and service items

The Company's main development focus is in the area of microcontrollers (MCUs) and peripheral ICs. The main application areas include a full range of standard and application specific MCUs in addition to devices for screen displays, power management, computer peripherals, communication, RF, memory, analog, touch switches, voice, health measurement, security, motor control, Internet of Things (IoT) and financial applications, etc. This full range of devices not only meets the requirements for a wide scope of global applications, but also focusses on the needs of specific geographical areas.

In addition, the company also provides a custom design service for customer requested ASIC MCUs for their individual specific application requirements. This is in addition to the design of other ASSP MCUs which are designed to meet the needs of specific application areas.

4. New product development and service

To provide customers with a more complete range of products and technical services, the company has expanded its applications to include 4C+MG (Medical & Green), while providing a range of professional services to meet the customer's diverse requirements for product functionality, cost effectiveness, timeliness and product protection, etc. The company's main products include the following:

- (1) AEC-Q100 105°C high temperature certification required to extend its products into the automotive electronic specification area
- (2) 24-bit Delta Sigma A/D with LCD Flash MCUs
- (3) Advanced Touch Key Flash MCUs with high noise immunity features to meet the dynamic CS 3V CS requirements
- (4) Low power wearable device Touch Flash MCUs

- (5) Health measurement MCUs and its solutions
- (6) H-Bridge induction cooker and microwave MCUs and its solutions
- (7) Fast charger and identification MCUs and its solutions
- (8) Middle power wireless charger MCUs and its solutions
- (9) Li-battery management during charge/discharge operations and solar battery management and their solutions
- (10) Power battery charger MCUs and solutions
- (11) AC Voltage Regulator AVR MCUs and solutions
- (12) Security and fire protection MCUs and solutions
- (13) Ultra-Low Power RTC Flash MCUs
- (14) High performance and high capacity ROM Flash 8-bit MCUs
- (15) CAN Bus Flash MCUs and solutions
- (16) TDC Ultrasonic vehicle reversing ASSP MCUs
- (17) Ultrasonic distance measurement/Ultrasonic parking assist Flash MCUs
- (18) RF Sub-1GHz and OOK+FSK wireless transceiver Flash MCUs and SoC solutions
- (19) Advance low-power Bluetooth (BLE) Arm® Cortex® M0+ Flash MCUs
- (20) 32-bit MCUs for IoT application platform and solutions
- (21) 32-bit MCUs for low power consumption Bluetooth(BLE) platform and solutions
- (22) 32-bit Arm® Cortex®-M0+ core MCUs and 32-bit 96 MHz Arm® Cortex®-M3 core MCUs
- (23) High-speed Duplex CIS Module Digital Front-end Processor and solutions
- (24) High precision biological detection analog front end processor (AFE) with programmable digital filter (DF) and fast Fourier transform (FFT)
- (25) AI image and neural network processor and solutions

5.1.2 Industry Overview

1. Industry Overview and Development

(1) Global Semiconductor Market

According to the Global Semiconductor Trade Statistics Association (WSTS), the global semiconductor sales in 2019 reached a figure of US\$412.1 billion (YoY -12.1%), which recorded the largest drop record since 2001. Among this, the global shipments of integrated circuits reached 932 billion units in 2019 (YoY -7.2%). In 2019, the ASP was US\$0.442, a decline of 5.3% compared with that of 2018. Although negotiations of trade between China and the United States were relatively smooth in the fourth quarter of 2019 and the overall economy is gradually stabilizing, however, it is necessary to be observed whether the global economy will reverse in the future.

In addition, the market research institute, IC Insights, reported that MCU unit shipments reached 26.9 billion units in 2019 (YoY -4%). In 2019, MCU revenue reached US\$16.5 billion (YoY -6%). In addition, according to the statistics of the Industrial Economics and Trends Research Center, IEK, which is entrusted by the Taiwan Semiconductor Association (TSIA), the sales of 32-bit MCUs increased from

23.9% to 24.5% in 2019, with an annual growth of 0.6%. Compared with 8-bit MCUs, the total sales decreased by 0.2% in 2019. It is estimated that in 2023, with the increasing design requirements for processing high-performance computing applications, sensors and various types of intelligent devices connected to the IoT areas, 32-bit MCUs will expand more rapidly into increasingly various application fields.

(2) Taiwan Semiconductor Market

The IEK statistics show that Taiwan's IC industry output value reached NT\$2,665.6 billion in 2019, an increase of 1.7% over 2018. Among this figure, the IC design industry output value was NT\$692.8 billion which is an increase of 8.0% when compared with 2018. The IC manufacturing industry figure was NT\$1,472.1 billion which is a decrease of 0.9% when compared with 2018. As for wafer production, the figure was NT\$1,312.5 billion which amounts to a 2.1% increase in 2019. The memory and others, the figure was NT\$159.6 billion which amounts to a 20.4% decrease in 2018. The IC packaging industry figure was NT\$346.3 billion which is an increase of 0.5% over 2018. As for the IC test industry, the figure is NT\$154.4 billion which shows an increase of 4.0% from 2018.

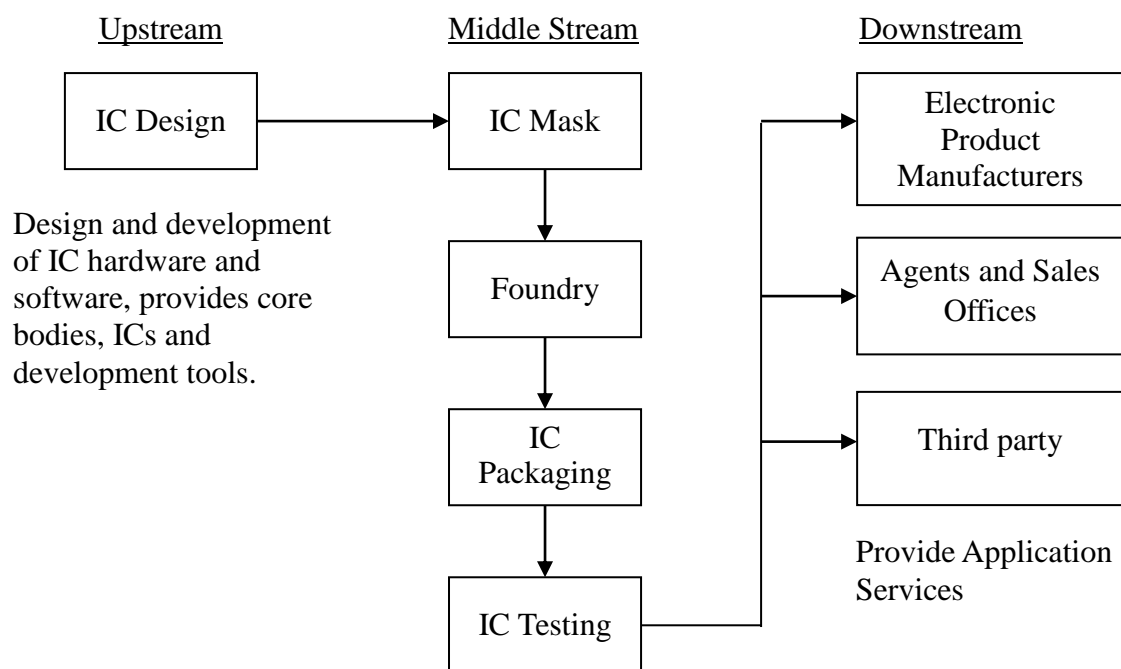
Looking ahead to 2020, although the Coronavirus (covid-19) depresses demand and disrupts supply in the first half of the year, the SEMI forecast Taiwan IC design industry output value of 2020 is expected to total NT\$722.7 billion, an annual growth of 4.3%, when compared to that of 2019.

(3) China's Semiconductor Market

According to the China semiconductor industry association statistics, which have been affected by the China-US economic and trade relations as well as market growth, in 2019, China's IC design industry sales of RMB308.5 billion, grew by 19.7%, when compared to 2018. In the future, due to the strong domestic demand in China and the preference for the domestic IC industry for the production of entry to mid-level product lines, high-end products will still need to be imported from overseas, in order to realize the product upgrade. In addition, to construct a complete supply chain, it is continuously necessary to create value for customers, promote the competitiveness of the global market.

2. Industry Upstream, Middle Stream and Downstream Relations

IC Design Industry Structure



3. Product Development Trends

The Company's product range encompasses a wide range of applications, including computer peripherals, communications, consumer, smart home appliances, industrial equipment, health measurement and IoT products.

Main Product	Application Area
MCUs	1. Arm® Cortex®-M core series 32-bit Flash MCUs 2. HT8 core series 8-bit Flash MCUs 3. BS series 8-bit touch key Flash MCUs
RF SoC MCU products	1. Wireless intercoms, vehicle alarms, bicycle anti-theft, smart home wireless remote control, smart doorbell chimes and security 2. Low-power Bluetooth (BLE) for health measurement products, home appliances and smart device information enquiry applications 3. Sub-1GHz spread spectrum wireless communication LoRa module products, intelligent meters, IoT products and applications
Home Appliance products	Wide range of small household appliance microcontrollers, home appliance panel display control MCUs and various home appliances touch key MCUs

Main Product	Application Area
Computer Peripherals	Keyboards, Mice, Gaming Keyboards, USB Bridge, PDF Data Loggers, etc.
Display Products	Electronic meters, audio/video/home appliance displays, vehicle displays, electronic shelf label displays, wearable product displays and constant current LED display, etc.
Power Management Products	Home appliance power boards, chargers, smoke sensors, mobile power, wireless charging, smart meters, lithium battery personal care products such as razors, nasal hair cutters, cleansing products, electric hair clippers and flashlight ASSP MCUs
Financial Products	Dynamic password generators, challenge-response mechanism for one-time password, Dynamic Code Verification (DCV) card, NFC stored-value cards, smart card readers, financial instruments such as for checking currency, credit cards, identity cards and other areas such as for currency counting machines, sorting machines, ATMs, EPD Flash MCUs, Ultra-Low Power Flash MCUs and identity card identification instruments, etc.
IoT Products	Based on Wi-Fi and BLE (Low power Bluetooth) 32-bit Flash MCUs to provide complete solutions for small home appliances, health monitoring, medical care, smart bracelets and other IoT related products. Uses dual-core 32-bit DSP function to provide system solutions such as banknote recognition, license plate recognition, facial recognition, object recognition and gesture recognition
Safety and Security Products	Smoke and fire detector alarms, PM2.5 sensors, CO/GAS detection alarms and PIR/uWave sensors, etc.
Health Measurement Products	Blood pressure meters, blood glucose meters, blood oxygen saturation monitors, thermometers, electronic weight scales, digital weight price scales, body fat scales, infrared temperature measurements, atomizers and proximity sensor, etc.

4. Competitive Situation

Due to a low threshold for setting up a company in China, with the Chinese government issuing its "Outline for the Development of the National Integrated Circuit Industry" and the "Made in China 2025" campaign, has resulted in a powerful force for the rapid development of China's IC industry. As of 2019, there are about 1,780 IC design companies in China showing an increase of 82 companies (YoY +4.8%) when compared to 2018. This situation has created increased horizontal competition in Taiwan. In terms of IC product mix, the number of companies engaged in communications, smart card, computer, navigation and consumer electronics was up from 2019, while the number of manufacturers in multimedia, analogue and power was decreasing.

Due to the stability, reliability and easy maintenance of 8-bit MCUs in IoT and wearable devices, global MCU manufacturers continue to increase the expansion of applications

using 8-bit MCUs. In 2019, the global 8-bit MCU market size has kept remaining over 35% of market shares. In addition, Mordor Intelligence, the market research institute estimates that the global MCU market will grow approaching at US\$ 10 billion by 2023, at a CAGR of 5.11%, during the forecast period (2019-2023). Modern electronic devices are becoming increasingly dependent on these systems for computing power needed for operations. 8-bit MCUs are retaining their market share, aided by strong demand for automotive, consumer electronics, home appliances, medical care, industrial electronics, data processing and communication applications.

5.1.3 Research and Development

1. Research and development expenses for the previous year for the most recent year until the end of the annual report

Units: Value in NT\$ Thousands

Year	2019
Research and Development Expense	793,025
Operating Income	4,584,105
R&D expense as a percentage of operating income	17%

2. Development of Successful Technologies or Products

Each year the company invests 15% to 20% of its annual turnover in new products and new technologies. Relying on the continuous release of new products has created stable growth and profit increases.

During 2019, the main research and development achievements were based on MCUs, which when added to its peripheral ICs series of devices, can provide a comprehensive set of solutions and services. A summary of the different applications can be summarised as follows:

(1) MCU New Generation 8-bit MCUs

- A. 1.8V ~ 5.5V low voltage Flash type series: These support lower operating voltages and include an integrated A/D converter and LCD function for battery powered products.
- B. Integrated multi-stage operational amplifier, comparator and voltage regulator MCUs: These reduce PCB area, simplify the circuit structure, reduce product size, reduce costs and allows for more simplified production. Suitable for products which require signal amplification, such as remote controls, parking sensors, rangefinders, toys, robots, instruments and automatic induction faucets, etc.
- C. Touch key MCU series: Applied for use in the growing amount of applications that are using touch keys. Flash touch key MCUs all have ICP (In Circuit Programming) functions and include an integrated EEPROM, allowing for simple program modifications and adjustments of parameters and settings.
- D. Low-power standard series (TinyPower™ MCU): This series has reached the level of international manufacturers. Their lower power consumption is in line with environmental protection trends making them suitable for various types of battery powered portable products.

- E. Health measurement products: These include blood pressure, blood glucose, blood oxygen, body temperature, body weight, body fat, and other health care related products. Related products include a dedicated MCU which includes a full set of integrated functions thus eliminating the need for large numbers of external components. A 24-bit high resolution ADC is also integrated along with USB and voice interfaces. These health care products provide great assistance for the health care of elderly people.
- F. Servo motor MCUs: These devices can be divided into PWM servos and UART servos. There is also a development platform which greatly simplifies the development of servo based products. A communication protocol for UART robot servo control has also been developed which has been evaluated by intelligent robot manufacturers.
- G. Brushless DC motor (BLDC) motor control MCUs: These are applied in areas such as energy-saving fans having the benefits of energy-saving, linear speed control and low noise.
- H. Wireless charging product series: In addition to the 5W wireless charging low-power products that have already been developed, new WPC medium-power wireless charging ASSP MCUs can meet the Qi 15W power requirements.
- I. Multi-channel RGB LED MCUs: These constant current RGB LED drivers, can implement millions of RGB color and illumination level changes. These are suitable for smart speakers, mouse pads, e-sports headset, e-sports mouse as well as a range of other products.
- J. Security products: These are applied in areas such as smoke detector alarm, CO/ GAS detector alarm, integrated PIR/ microwave dedicated MCUs. These products are integrated with integrated operational amplifier, dual channel IR driver with LED, temperature sensors, ADC and display driver, etc., reducing the requirements for large numbers of external components.

The above series of MCUs meet with industrial specifications (wide temperature operation range of $-40^{\circ}\text{C} \sim +85^{\circ}\text{C}$), have anti-noise capabilities and a similar same level of product quality as that from leading European and American manufacturers. The product quality has been widely recognised by customers.

(2) Arm[®] Cortex[®] M Series 32-bit MCUs:

- A. Arm[®] Cortex[®] - M0+ core 2.5V~5.5V Flash MCU
- B. Arm[®] Cortex[®] - M3 core 96 MHz Flash MCU
- C. Arm[®] Cortex[®] - M0+ core 60MHz Flash MCU
- D. RGB LED Controller Flash MCUs: Arm[®] Cortex[®] - M0+ core 60 MHz Flash MCU, providing an operating voltage range of 2.5V ~ 5.5V, is integrated with high-efficiency 4-channel serial light bar controllers, multiple PWM timer and PDMA. These are suitable for gaming keyboards, gaming mouse, LOGO lights and light strings applications, etc.
- E. LCD Flash MCUs: Arm[®] Cortex[®] - M0+ core 60 MHz Flash MCU, providing an operating voltage range of 1.65V ~ 3.6V, is integrated with USB 2.0 FS, LCD controller, multi-group PWM timer, AES-128 encryption mechanism, PDMA, UART/USART, RTC and 12-bit ADC and DAC. These are suitable for consumer and industrial products with LCD applications, etc.

(3) Consumer Products

- A. Flash Type Voice MCU: Integrated functions such as 16-bit ADC/DAC and SPI interfaces with integrated hardware voice compression combine to reduce the customer learning threshold thus increasing product flexibility and functional integration.
- B. Touch + Voice Flash MCUs: Integrated functions such as 16-bit ADC/DACs and SPI interfaces with integrated software voice decompression technology as well as integrated Holtek capacitive touch switches and software LCD functions, combine to reduce the customer learning threshold thus increasing product flexibility and functional integration.
- C. Touch + LCD/LED Flash MCU: Combined capacitive touch switches and direct driving of LCDs and high current LEDs, also UART serial communication interfaces, RTC real-time clock function and high precision 12-bit analog-to-digital converters. In addition to being used in general consumer products they are also suitable for industrial thermostats and other industrial products.
- D. Ultrasonic atomiser Flash MCUs: Integrated automatic frequency tracking, water empty power-on, water shortage detection, etc. Can be used with a range of different atomising frequencies, such as 100KHz, 1.7MHz, 2.4MHz, 3MHz, etc. Complete support for atomisers, effectively reducing customer costs.
- E. Complete 2.0 generation power charger control Flash MCUs: fully integrated dual sets of OPAs and programmable DACs. The MCU controls the primary side PWMIC using an OPA and generates both constant voltage (CV) and constant current (CC) hardware control. For use in e-bike or power tool lead acid/lithium battery charger products.
- F. Power management and driver products:
 - (a) High withstand voltage, high accuracy, low power and high current drive linear regulators with operating voltages up to 40V. High $\pm 1\%$ accuracy with less than 1uA operating current and up to 500mA current drive linear regulator. Products can be widely applied for use in fire safety, industrial control, financial products, automotive electronics, etc. Used to extended battery life and to achieve green energy savings.
 - (b) Low-power/high-current drive boost converter: ultra-low 0.7V operating voltages up to 3A output current. Suitable for use in dry battery and lithium battery related applications such as electric razors, health products, mobile power, wireless networking for water/electricity/gas/heat meter applications. Provides extended battery life and offers a stable and reliable power supply
 - (c) High withstand voltage and high current drive buck converters with operating voltage up to 52V and a maximum 3A output current. Can be widely used in applications such as smart meters, electric motors and wireless routers. Provides a stable and reliable system power supply.
 - (d) Low-power/low-cost AC-DC voltage converters with maximum withstand voltage up to 700V. These provide cost-competitive solutions and can be widely used in small household appliances such as induction cookers, ceramic stoves, coffee machines, rice cookers etc.
 - (e) DC motor driver ICs: used for valve control of water meters, gas meters, heat meters and dc motor drive applications such as electronic door locks. Can drive

up to 24V motors with a drive peak current of 2.5A and possesses comprehensive IC protection functions.

- (f) Multi-section lithium battery protection simulation front-end IC. Applied for use in handheld power tools, vacuum cleaners, water sprayers and other products. Can provide low-cost, highly integrated and complete lithium battery protection system.

- G. Remote Control Encoder ICs: Used in vehicle alarms, home security and door alarms, household appliances, etc. Anti-theft and remote control of gates, curtains, doorbells and home appliances.
- H. Ultrasonic Flowmeter ASSP MCUs: Integrated TDC analog IPs and SPI/UART/I2C communication interfaces, integrated flow algorithms and temperature measurement as well as other technologies to reduce the user learning threshold.
- I. Fast wireless charging ASIC MCUs: Used in 10W wireless charging solutions.
- J. 400mA linear charging IP: Integration function within 8-bit MCU SoC used in lithium battery products.
- K. High-voltage bus data transmission IC: includes integrated analog voltage modulation data input and current modulation data output providing data modulation on power lines.
- L. Dual-core 32-bit DSP IC: integrated dual-core DSP processor for image processing accelerator, neural networks and DDR controller, etc. Provides application solutions for image identification such as banknotes, documents, faces, license plates, etc.

(4) Computer Peripheral Products

- A. USB 2.0 Full Speed MCU Series.
- B. USB Bridge Series ICs.
- C. High Speed CIS/CCD Analog Front End Processor (AFE) Series.
- D. USB 2.0 Low Speed MCU Series.
- E. PDF Data Logger MCUs.
- F. Gaming Keyboard/Mouse RGB LED ASSP Flash MCUs.

(5) Wireless Products

- A. Wireless intercom control: internal DSP and audio processor SoC Flash MCUs, used in specialised FRS intercoms.
- B. Wireless remote controllers: integrated 315M/433M/868M/915MHz ISM frequency band RF transmitters and ASK/OOK/FSK/GFSK encoders, integrated into high performance Flash MCUs to provide RF and MCU control in a single SoC IC.
- C. Remote controllers: 315M/433M/868M/915MHz RF receivers and receiver super-regeneration and super-heterodyne mode circuits, demodulate OOK/FSK reception and Flash MCU applications, aimed at wireless transmission remote control products for integrated one-way and two-way control applications.
- D. 2.4GHz wireless MCUs: combined 2.4G RF circuit and Flash MCU, used in high noise resistant dual direction communication applications etc.
- E. Low power Bluetooth (BLE) MCUs: Integrated high-performance RF, modem and 32-bit M0+Flash MCU with fully integrated DC/DC converter and LDO to support

a wide range of single power supply applications, suitable for low-power health and medical products, home appliances and smart devices etc.

F. NFC Tag Flash MCUs & NFC Reader controller

5.1.4 Long-term and Short-term Development

1. Short term development plans

(1) Marketing and Operating Strategy

With over 30 years of experience in the IC design industry, the company's management team is well experienced with both customer and market needs. The company also has the full support of several external fabs, packaging and testing plants in addition to a local sales and technology presence in Taiwan, China and the USA. This all combines to provide the company with a high level of product competitiveness.

- A. Excellent product quality – has excellent electrostatic discharge protection and anti-noise abilities.
- B. Rapid product delivery times.
- C. Superior cost/performance ratios.
- D. Can provide both OTP (one time programming) and Flash type MCUs.
- E. Quick response local technical service.
- F. Flexible ASSP and ASIC MCU design service.
- G. Professional development tools and efficient C compiler.

(2) Production Strategy

- A. Cooperate with external manufacturers such as major foundries, packaging plants, test plants, etc. to obtain sufficient capacity and cost competitiveness.
- B. Establish platforms with partner manufacturers for data collection to be able to monitor and control progress and volumes to reduce inventory and effectively control stocks.

(3) Product Strategy

- A. The Company's main product development arena is located in the 8-bit and 32-bit MCU area, which was added to its range of complimentary MCU peripheral components provides extensive and flexible solutions. This wide range of solutions provides customers with strong market competitiveness.
- B. The Company's strategic products form the mainstay of the consumer market, as well as introducing niche products and providing differentiated services.
- C. The Company's overall system cost outlook exists to assist customers achieve reduced overall costs and achieve a win-win situation for all.

(4) Development Strategy

The Company will continue to use its present MCU core architecture for different process platforms and by using specialised IP technologies it will be able to implement small SoCs. By improving the device noise rejection and electrostatic protection capabilities, the company will be able to match the specification of MCU suppliers in the US, Japan and Europe. This will enable it to meet the 105 °C high temperature

AEC-Q100 certification requirements enabling it to extend its products into the automotive electronic specification area.

2. Long term development plans

(1) Marketing and Operation Strategy

The Company's development strategy will be focused on markets incorporating home appliances, health measurement, PC-related peripherals, security, motor control and financial products. Here it will develop high-quality microcontrollers for international markets, providing excellent product quality and fast on-site services. This will not only meet the needs of global customers, but also successfully introduce HOLTEK microcontrollers into the world's leading home appliance manufacturers and establish a global professional Holtek brand image. In addition to the constant improvement of its range of 8-bit MCU devices, it will continue to develop 32-bit MCUs, increasing its overall market share. In 2019, the company shipped over 22 million of 32-bit MCU dice, showing an increase of 33% (YoY). The future 32-bit MCU application range covers an increasing application area. With a variety of professional cooperative partners, an extension of ecological systems and through the introduction of innovative design, will accelerate the development of products with forward-thinking features required by end using customers.

(2) Production Strategy

- A. Have a response to the early stages of industrial boom cycles to reduce their impact.
- B. Continuous use of advanced processes, implement cost reductions to improve yield and market competitiveness.

(3) Product Strategy

- A. Lock in domestic and overseas large company potential markets for product promotion and service.
- B. Move into higher-level or high value-added applications, such as high-end household appliances, industrial equipment, security products, automotive electronics and other areas.

(4) Development Strategy

Improve overall product design capabilities by developing standardised and modular development technologies in response to market application requirements. This will reduce development times and costs as well as accelerating time-to-market for new products resulting in increased price competitiveness.

(5) Product Development Areas:

- A. Continue developing its standard range of 32-bit ARM core MCUs which include functions such as LCD drivers, UART/USB/SPI/I2S communication interfaces, PWM drivers, CMOS sensors, operation amplifiers, etc.
- B. Continue developing its special purpose range of 32-bit ARM core MCUs for areas such as image recognition, motor control, fingerprint recognitions, encryption/decryption, CRC computing, CAN bus, wireless IoT wearables, multimedia and wireless applications, music synthesizers, etc.
- C. Continue developing its standard 8-bit Flash MCUs, to include a full range of functions such as A/D and D/A converters, LCD/LED drivers, 24-bit high resolution delta-sigma A/D converters etc. voice applications.

- D. Continue to increase its range of 8-bit Flash Special Purpose MCUs for areas such as health measurement, personal care, motor driving, touch switches, safety and security products, IoT products, wired and wireless charger products, home appliances, computer peripherals, ultrasonic applications, etc.
- E. Continued development of Wireless devices such as those for Bluetooth Low Energy (BLE), 2.4GHz transceivers, Sub-1GHz RF SoC Flash MCUs, encoders/decoders, etc.
- F. Expand its range of power management devices including higher current LDOs, high efficiency DC/DC converters, AC-DC converters etc.
- G. Continued development of low/medium/high voltage 3-phase Gate Driver ICs, Driver ICs, Lithium Battery Charger ICs (Battery management system, BMS), Charger ICs, Brushless DC motor (BLDC) motor control MCUs, which includes power tools, fans, electric bicycles, E-scooters, etc.
- H. Develop AI image recognition ICs: Provides applications related to identification of banknotes, faces, license plates, objects and gestures, etc.
- I. MCU integrated AFE: Combines various sensor applications for the development of smart sensor products thus expanding the product application field.

5.2 Market, Production and Sales Overview

5.2.1 Market Analysis

1. Major Product Sales by Region:

Units: Value in NT\$ Thousands

Region \ Year	2018		2019	
	Sales	Percentage (%)	Sales	Percentage (%)
Taiwan	484,264	10	449,626	10
China/HK	3,716,948	76	3,474,535	76
Overseas	661,595	14	659,944	14
Total	4,862,807	100	4,584,105	100

2. Market Share

The Company is mainly focused in the area of MCU and peripheral IC development. These devices are embedded intensely in huge numbers of products within a wide range of application fields. These applications not only include Consumer, Communication, Computers, Cars (4C) fields, but also non-volatile memory ICs, display driver ICs, power management ICs, analog ICs, ASSP/ASIC MCUs, etc. Each product has a strong marketing position within highly competitive international markets.

According to IC Insights forecast, MCU revenues reached US\$16.5 billion in 2019. The Company's total MCU revenues of NT\$3.510billion (US\$116 million) in 2019, (exchange rate of NT\$30.2424 per U.S. Dollar) accounted for about 0.7% of the MCU market. In addition, in 2019, total MCU shipments of the Company were 653 million dice, decreasing by 3%, compared to 2018. This accounts for 2% of the 2019 global MCU market share of 26.9 billion dice, analysed and reported by IC Insights. Looking forward to 2020, it is expected that the existing market share will continue to increase as the application breadth expands along with MCU demand. The Company will keep on increasing its targeted market share.

3. The Supply and Demand in the Market and the Future Growth

(1) Supply and Demand Situation

Microcontroller (MCU) provides high performance and cost-effective embedded solutions for smart, secure and booming IoT market due to their ease of use character, real-time operation and low power consumption. Since the second-half of 2018, due to the trade friction between China and the United States and slower global economic growth during 2019, the whole semiconductor market became weakened. Customers are wrapped in a wait-and-see atmosphere, which indirectly influence the situation of order received, but fortunately rely on the Internet of Things (IoT) and wearable devices, such as TWS (True Wireless Bluetooth Headset), etc. hot trending products. The Company has kept up with market trends, in the process releasing a wide range of highly competitive products resulting in stable and healthy growth to achieve excellent and consistent annual returns.

(2) Future Growth

According to the IC Insights research report, the annual compound growth rate for

MCU shipments in IoT applications will be 4% from 2018 to 2023. It also forecasts that there will be more than 3 billion items since 2020 along with the evolution of communication technologies which will connect these items together. In seeing this, the Company has launched MCUs with RF and Sensor integrations, including NFC, low power consumption Bluetooth (BLE) modules, LoRa modules and Sub-1 GHZ wireless communication modules to support Internet access and online streaming. In the future, artificial intelligence will be further integrated into daily life through the Internet of Things (IoT), which is known as "AIoT". Global MCU vendors should be upgrading their innovative technologies to encounter these big challenges and capture future growth momentum.

4. Competitive edge

The IC design industry is a knowledge-intensive industry with innovation technology. The major conditions of a healthy IC design industry are in having sufficient R&D employees, computer-aided designs and test equipment.

After many years of operation, the Company has accumulated a wealth of talented employees, expertise in innovative technology development and experience in product applications. Focusing on achieving the goals of mastering core technologies, designing a wide range of products and being creative in its approach to produce embedded products with stronger functions, higher quality, lower prices to meet customers' demands targeted at the future development needs of the industry.

(1) Strong R&D Ability and Development of Leading Products:

The Company actively recruits highly skilled employees and provides accumulated experience through education and training. These exceptional human resources and team spirit developed through long-term cooperation are the key factors that have enabled the Company to cultivate a superior Company culture to guarantee long-term prosperity and deliver continuous innovation.

(2) Update the Auxiliary Design and Test Equipment:

The Company provides precision instruments and equipment to improve employee work efficiency and to ensure product stability and reliability. Depending upon the interaction between customers and the markets, the development of high-tech applications will remain in line with niche markets.

(3) Complete Global Marketing Network:

The Company has many global agents or distributors, such as in Taiwan, Hong Kong, Shenzhen, Dongguan, Xiamen, Shanghai, Suzhou, Hangzhou, Nanjing, Beijing, Chengdu, Qingdao, the United States and northeast Asia, southeast Asia, South America, Europe, Middle East, etc., to rapidly collect market information and to grasp opportunities in these leading market. These complete sales networks ensure that the provision of fast sales, quick after-sales services and technical support is possible.

(4) Strong Upstream Foundry Relationship:

The Company works closely with upstream foundry vendors, packaging and testing companies. These suppliers have been able to ensure supply security, high quality and low cost procurement, so as to improve the long-term competitiveness of the Company.

(5) Excellent Management Systems:

The Company has obtained ISO9001 certification for its Quality Management System

and ISO14001 for its Environmental Management System. All internal operating system processes are in accordance with standardized and specified management. Stable product qualities and are appreciated by all customers.

5. Favorable and unfavorable factors of further development and the response to each issue

(1) Favorable Factors:

Most IC design companies operate to produce specific or professional products. Due to concentrated resources and accumulated experience, professional products have more dominant advantages here. But facing strong challenges from competitors or fluctuations within the semiconductor market, its strength and response ability is far less than those of a design house which is able to provide a wide range of different applications and meet the needs of different customer demands. Therefore, the Company aims to provide a full range of products and services to grasp the competitive advantages which listed as follows:

A. Leading and complete product series

- (a) With the increasingly abundant IPs and improved design ability, ASSP/ASIC MCUs have highly integrated functions according to customers' demands. These total solutions for reference design provided by the Company are able to increase the IC functions and competitiveness of customers' products which creates barriers to competitors entering the market.
- (b) Diversified products shall effectively reduce market risks.
- (c) The growth target of the Company is relatively spatial and flexible.

B. Establishment of global marketing network

- (a) To effectively establish global distributors to provide timely and localized product technical services and respond to market demands immediately; Localized services include providing development tools, FAE, safety verification, software services, etc.
- (b) Long-term established distribution system has been spread all over the world which is conducive to full product range promotion and the expansion of revenues. These products have been certified and adopted by the United States/Europe/Japan/South Korea and other international companies, etc.
- (c) To pay full and continuous attention to the development and care of customers, so as to pave a stable and sound path to the market.
- (d) The combination of production and marketing develops long-term mutual benefits to support customer relationships.
- (e) Alliance with upstream and downstream companies to enhance dependence to strengthen industrial competitiveness.
- (f) A computerised support system enables an estimate of sales demand, pre-scheduling productivity, inventory, and outsourced processing to be fully implemented to the coordination of productivity and sales. The effective in-time product control to achieve cost minimization, output maximization and service optimization.

C. Product development capability

- (a) Accumulated long-term experience of excellent R&D technology skills.

- (b) Strong and well-qualified R&D team.
- (c) Introducing new technologies through strategic cooperation and industry-academic cooperation to accelerate product and technology upgrading.
- (d) Developing diversified products to reduce the impact of industrial volatility.
- D. Overall environmental support
 - (a) Concentration of industrial support enhances business efficiency.
 - (b) Industrial specialisation enhances cooperation and dependence.
 - (c) High industrial integration and strong competitiveness enhances product advantages.

(2) Unfavorable Factors:

- A. Products which are too similar to each other, results in strong competition and reduced profits. The Company shall improve the technical level and product quality to avoid conflicts and develop a series of products and ASSP MCUs to meet various customer niches, so as to obtain unique advantages.
- B. The lowering of European and American competitors product prices. The Company shall provide cost-effective products with more rapid services and complete total solutions to obtain recognition and adoption of customers.
- C. The ecosystem cycle is shortened and the development cost is increased. The Company shall improve the development environment and collect market information quickly and accurately to achieve opportunities in advance.
- D. Facing strong competition from integrated device manufactures. The Company shall make strategic alliances with wafer foundries, packaging and testing companies to preserve its necessary competitiveness.
- E. With the increasing importance attached to intellectual property right protection, the room for survival of IC design companies is also shrinking. The Company shall continuously increase the strength of its intellectual property rights and strive to improve the dominance of its products.
- F. Faced with the vigorous development of the IC design companies in China and the deliberate neglect of intellectual property rights, IC design companies in Taiwan have experienced threats and have been affected. Therefore, the Company shall not only focus more on the development of products to consolidate the market through product transformation, diversification and improvements to obtain higher quality, but also to protect its rights in law through efficient legal procedures.
- G. The lack of IC design skills and long duration required for staff training, coupled with the rapid turnover of launched products. The Company shall work closely with tertiary institutions to recruit highly skilled talents and regularly hold training schemes for new R&D employees, to provide a good working environment and promotion channels to maintain a low employee turnover rate.
- H. Lack of sufficient confidence in the adoption of Taiwan brands. The Company shall choose suitable customers for long-term cooperation to reach the stage of mass production, so as to enhance popularity in MCU market. In addition, according to insufficient parts of product matrix, the short-term solution is to actively seek vendors with complementary products to implement strategic alliances jointly promoting the market. Moreover, in the long term, by means of new technology

introduction, its approach will be to increase the integrity of its product scope and breadth.

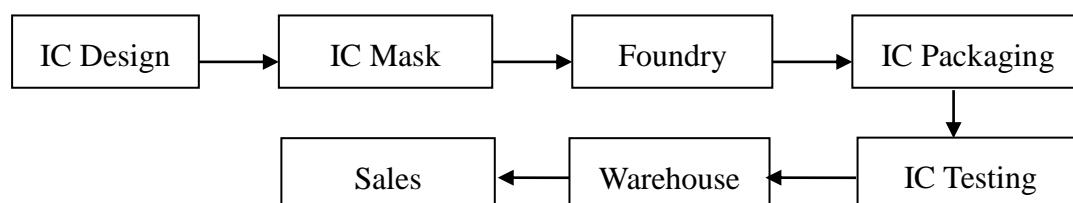
5.2.2 Purposes of the Major Products and the Production Process

1. Major Products and Their Main Uses

Major Products	Main Uses
MCU	Used in home appliances, health care products, vehicles, industrial instrument control, measurement, consumer electronics, touch products, communication products and computer products, etc.
Display Driver	Used in home appliances, education, musical products, instruments, home safety, alarms, health and medical equipment and automotive application display drive products, including LCD, VFD and LED, etc.
Power Management	Power management applications for all kinds of computers and consumer products, including voltage stabilisation, voltage detection, DC-DC and AC-DC conversion applications, etc.
Memory	Used in computers, communications, consumer electronics, education and entertainment products and smart cards, etc.

2. The Production Process

- (1) The Company is focused in the area of IC design and marketing. The previous or backend phase of the production of products is outsourced to manufacture. The production process is shown below:



- (2) Foundry resources

The Company cooperates with well-known domestic and overseas manufacturers, such as UMC, TSMC, EPISIL, Macronix, etc., to establish long-term product development and production cooperation.

- (3) IC packaging

The Company cooperates with several manufacturers, such as Greatek, Orient, ASE, etc. to ensure packaging capacity remains adequate.

- (4) IC testing

The Company cooperates with many testing organisations such as Greatek, YTEC, etc., to provide testing technology and equipment needed to meet the full capacity.

- (5) Warehouse

A. Main storage items:

- (a) Categories: wafers/packaged ICs/semi-finished products/materials.
- (b) Test status: This is divided into two categories which are tested and untested.

(c) Availability: Divided into three categories which are good, defective and rejected products.

B. Good warehouse planning and management and quality assurance:

(a) Automatic warehousing operations.

(b) Quality maintenance of stored items.

(c) The management and monitoring of the movement control of goods.

(d) Actively tracking the turnover efficiency of goods.

5.2.3 The supply of key materials

The Company provides high precision integrated circuits for which its raw materials are silicon wafers whose suppliers are well-known global manufacturers whose products have good quality and stable sources. The Company has established long-term and good cooperation relationships with UMC, TSMC, EPISIL and Macronix, to maintain the advantages of reliable wafer foundry resources and to actively seek the support of other foundries to meet the growth needs of the Company.

5.2.4 If any customer in any of the previous two years with purchase (sales) amount exceeding 10% of the total purchase (sales), the name, amount and proportion to total purchase (sales) shall be specified, so shall the reasons for any change if applicable:

1. Major Suppliers in the Last Two Calendar Years

Unit: Value in NT\$ thousands

Item	2018				2019			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	A	878,732	34	None	A	919,365	38	None
2	B	354,956	14	None	B	346,198	14	None
3	C	283,560	11	None	C	288,436	12	None
4	D	226,991	9	None	D	261,231	11	None
	Others	806,558	32	None	Others	606,749	25	None
	Net Total Supplies	2,550,797	100		Net Total Supplies	2,421,979	100	

Note 1: List of any suppliers accounting for 10 percent or more of the Company's total procurement (sales) amount in either of the 2 most recent fiscal years, the amounts bought from (sold to) each, the percentage of total procurement (sales) accounted for by each and an explanation of the reason for increases or decreases in the above figures. Where the Company is prohibited by contract from revealing the name of a client or where a trading counterpart is an individual person who is not a related party, it may use a code in place of the actual name.

2. Major Clients in the Last Two Calendar Years

Unit: Value in NT\$ thousands

Item	2018				2019			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	SIGNAL	635,592	13	(Note 2)	SIGNAL	589,840	13	(Note 2)
2	CROWN RICH	544,069	11	(Note 2)	CROWN RICH	523,944	11	(Note 2)
	Others	3,683,146	76		Others	3,470,321	76	
	Net Sales	4,862,807	100		Net Sales	4,584,105	100	

Note 1: List of any clients accounting for 10 percent or more of the Company's total procurement (sales) amount in either of the 2 most recent fiscal years, the amounts bought from (sold to) each, the percentage of total procurement (sales) accounted for by each and an explanation of the reason for increases or decreases in the above figures. Where the company is prohibited by contract from revealing the name of a client or where a trading counterpart is an individual person who is not a related party, it may use a code in place of the actual name.

Note 2: The reinvested companies accounted for using equity method by the Company's subsidiaries.

5.2.5 Production in the Last Two Years

Unit: Volume in thousands DICE/ Value in NT\$ thousands

Output Major Products	Year	2018			2019		
		Capacity	Quantity	Amount	Capacity	Quantity	Amount
MCU ICs		--	667,826	1,867,614	--	638,791	1,826,612
Peripheral ICs		--	405,805	536,009	--	364,188	486,246
Others		--	136	6,110	--	349	5,130
Total		--	1,073,767	2,409,733	--	1,003,328	2,317,988

Note: The products developed and designed by the company are mainly manufactured in wafer foundries and then outsourced for testing and packaging. There is no self-owned capacity limit and the quantity of production is based on the current year sales estimate.

5.2.6 Shipments and Sales in the Last Two Years

Unit: Volume in thousands DICE/ Value in NT\$ thousands

Sales Major Products	Year	2018				2019			
		Domestic		Export		Domestic		Export	
		Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
MCU ICs		42,333	346,059	630,511	3,365,495	41,510	325,189	611,312	3,184,832
Peripheral ICs		44,603	126,566	355,294	999,633	36,217	109,598	340,299	934,177
Others		35	11,639	788	13,415	28	14,839	350	15,470
Total		86,971	484,264	986,593	4,378,543	77,755	449,626	951,961	4,134,479

5.3 Employee Information

In the last two years as of the date this report was printed, the number of employees, average working period, average age and education are shown in the table below:

Year		2018	2019	January 1, 2020 to March 31, 2020
Number of employees	R&D	566	601	606
	Management	145	150	144
	Manufacturing	41	48	48
	Total	752	799	798
Average age		35.78	35.96	35.95
Average years of service (Year)		7.01	7.28	7.43
Education	PhD	0.7%	0.4%	0.4%
	Master	27.9%	27.5%	28.4%
	Bachelor	64.2%	64.7%	64.7%
	High School	7.2%	7.4%	6.5%

5.4 Information on the expenditures for environmental protection

In the most recent two years and up to the publication date of 2019 Annual Report, the Company has not suffered losses and punishment for environmental pollution.

5.5 Labor relations

5.5.1 Listed below are the employee welfare, education, training, retirement systems and how they are implemented in the Company, as well as information on the agreements between the Company and various employee rights and maintenance:

1. Employee welfare

(1) Welfare

The Company features an employee restaurant, staff recreation area, sports and fitness equipment area, rhythm classroom, medical room and other facilities. All employees are entitled to benefits such as group insurance, regular high-quality health checks etc. Professional medical staff are utilised to provide staff with health management facilities and medical insurance.

(2) Employee benefits:

The Employee Welfare Committee holds regular staff travel activities, a range of game based competitions, a year-end party and other activities. In addition, there are birthday gift vouchers, festival vouchers, travel subsidies, marriage/funeral cash gifts, birth and hospitalization time are all covered all the Company.

In order to promote various recreational clubs and enhance good relations among employees, a range of club activities have been established which receive financial subsidies. These include a billiards club, badminton club, yoga club, board games club, swimming club, etc. These encourage colleagues to have a good life/leisure balance so as to create a sporting culture and improved quality of life.

2. Employee further study and training system:

The Company has spared effort in nurturing excellence in its professional talent. It has allocated a budget for continuing employee education. HR and training sessions have prepared training courses for each of the business groups according to the development goals of the Company and the needs of various departments so that each employee can broaden their knowledge and skills within a complete career training system:

(1) Pre-service training courses - orientation training programs :

- A. Courses to promote company culture: The Company has held orientation training programs which enable new employees to become familiar with the Company's organisational structure, internal personnel regulations, quality policies, work safety, labor health, personnel and environmental training, etc.
- B. Professional training: Senior engineers serve as instructors for new employees, and prepare training courses for less senior employees to help them become proficient in the required design technology.

(2) On-the-job training programs:

- A. Internal department training: each department requires engineers to participate in internal department specialty training according to their professional needs.
- B. Internal training: Professional lecturers are occasionally invited to present professional training courses. These include technical training, management training, quality training, industry safety environment protection training, intellectual property right (IP) training and computer training courses etc. These are set up by a training committee and are based on the professional requirements of each department.
- C. Online learning courses: The Company has not only established educational and training platforms which have integrated a range of course information, training systems and data queries but have also developed e-learning and knowledge management systems as well as establishing an online teaching satisfaction survey mechanism.
- D. External training: The Company compiles an annual training budget for each employee allowing them to obtain external professional training according to their

personal plan requirements.

- E. The following shows what was implemented in terms of internal and external employee training during 2019:

	Total number of training hours	Total number of people trained
Management Training	120	95
Professional Training	235	646
Orientation Training	12	40

(3) In-service training:

Senior engineers may apply for in-service training programs at domestic universities to enhance their professional research and development skills and management capabilities to meet the Company's future development and sustainable business needs.

(4) Self-development:

The Company cultivates the professional ability of employees to build confidence in technology and increase program management experience and teamworking. In addition, senior employees will be trained to be central Company leaders who can participate in the management training of grassroots, middle and senior managers according to the demands of their level. In this way they will improve their management ability and performance.

3. Retirement system and implementation situation:

(1) Pension contribution:

- A. The Company has formulated labor pension regulations and established a labor retirement reserve supervision committee. According to the Labor Standards Act and the Regulations for the Allocation and Management of Workers' Retirement Reserve Funds, the Company shall allocate 2% of the actual employee's total salary to the retirement fund every month and deposit these pension funds in a Bank of Taiwan dedicated account.
- B. Employees who applied for the new pension system, according to the provisions of the Labor Pension Act, allocate a monthly amount of 6% of their wages which is deposited to their individual retirement accounts.

(2) Implementation situation:

In accordance with the law and relevant regulations, the labor and management of the Company shall jointly organise a "Labor pension reserve supervision committee". Both sides shall hold quarterly meetings of the labor pension reserve supervision committee which shall be responsible for the supervision and review of the fund allocation, storage and expenditure of the retirement reserve.

4. Agreements between labor and management and various employee rights and interests protection measures:

The Company regularly holds labor meetings every quarter. Those resolutions which need to be discussed are fully communicated by both sides of labor and management and

implemented after reaching a consensus. Up to the present date the relationship and interaction between both labor and management have remained excellent.

5. Code of conduct and ethics for employees:

The Company's the "Codes of Ethical Conduct of Directors' and Managers", "Employee Code" and "Rules of Integrity for the Employees" regulate the business of all employees for management or supervision. There must be no influencing of the beneficiaries, directly or indirectly, to gain improper benefit or other improper activities. The above items are within the Company's rules and new staff training materials.

6. Work environment and employee safety protection measures:

The Company obtained Certification of Approval for OHSAS18001 (Occupational Health and Safety Assurance Systems) in 2006 and new ISO 45001 is obtained in 2019 and holds regular quarterly meetings of its industry safety environment protection committee to promote the continuous improvement of various employee safety and health business activities. This includes health and safety related training, to create a good working environment and to protect the physical and mental health and safety of employees.

- (1) Entrance security guards: In addition to the 24-hour building security guards, security cameras are installed at all entrances and corners. The security management at night and on holidays is strengthened to ensure the personal safety of employees.
- (2) Fire safety:
 - A. An external company is commissioned to maintain and repair the fire service equipment (e.g., fire alarm and fire extinguisher). The Company also hires designated personnel to ensure records are kept after regular inspections.
 - B. The Company conducts fire drill and emergency shelter measures annually and has developed safety protocols for emergency situations and awareness of how to handle emergency situations should they arrive.
- (3) Environmental safety: In order to maintain the hygiene and quality of employees' drinking water, the Company has commissioned an external company to sample and test the E. coli content of its drinking water machines quarterly. It regularly implements office cleaning and disinfection and provides 75% alcohol in the toilet area to ensure the hygiene, safety and comfort of the working environment.
- (4) Staff health examination: The Company regularly entrusts external medical institutions to arrange various physical health examinations for employees and sets up specialized medical staff to provide medical services and arranges professional doctors to visit the company and hold health lectures every two months to help employees with their physical and mental health.

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

None

5.6 Material contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Land lease	Hsinchu Science Park Bureau, Ministry of Science and Technology	2001/03/15~2020/12/31	Lease land of self-constructed factory	Usage of self-constructed factory only
Technology licensing	Arm Limited	Contracts commence on 2007/06/25 and continue in force	Arm® Cortex®-M3 Technology licensing	Obey to any related laws or regulations
Technology licensing	Arm Limited	Contracts commence on 2013/09/24 and continue in force	Arm® Cortex®-M0+ Technology licensing	Obey to any related laws or regulations
Technology licensing	Andes Technology	2015/04/01~2018/03/31	Andestech D10 CPU Softcore Technology licensing	Obey to any related laws or regulations
Technology licensing	Arm Limited	Contracts commence on 2018/12/28 and continue in force	Arm® Cortex®-M4 with FPU and system IP products Corstone-101 Technology licensing	Obey to any related laws or regulations

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Consolidated Financial Summary – IFRS

1. Consolidated Condensed Balance Sheet – the Company and Subsidiaries

Unit: NT\$ thousands

<div>Year</div> <div>Item</div>		Financial Summary for The Last Five Years (Note 1)				
		2015	2016	2017	2018	2019
Current assets		3,824,522	3,928,641	4,179,054	4,322,111	3,984,290
Property, plant and equipment		463,561	442,570	414,729	398,515	358,515
Intangible assets		—	—	—	—	—
Other assets		775,954	763,556	770,487	834,874	1,030,863
Total assets		5,064,037	5,134,767	5,364,270	5,555,500	5,373,668
Current liabilities	Before distribution	854,700	977,382	1,068,788	1,079,483	932,568
	After distribution	1,662,120	1,768,971	1,996,078	2,142,474	(Note 2)
Non-current liabilities		163,141	173,262	196,636	251,918	361,677
Total liabilities	Before distribution	1,017,841	1,150,644	1,265,424	1,331,401	1,294,245
	After distribution	1,825,261	1,942,233	2,192,714	2,394,392	(Note 2)
Equity attributable to stockholders of the parent		4,027,963	3,965,330	4,071,239	4,199,170	4,052,665
Ordinary share capital		2,261,682	2,261,682	2,261,682	2,261,682	2,261,682
Capital surplus		142,309	159,281	142,309	142,309	142,309
Retained earnings	Before distribution	1,591,692	1,568,678	1,699,004	1,832,565	1,680,336
	After distribution	784,272	777,089	771,714	769,574	(Note 2)
Other equity		32,280	(24,311)	(31,756)	(37,386)	(31,662)
Treasury shares		—	—	—	—	—
Non-controlling interests		18,233	18,793	27,607	24,929	26,758
Total equity	Before distribution	4,046,196	3,984,123	4,098,846	4,224,099	4,079,423
	After distribution	3,238,776	3,192,534	3,171,556	3,161,108	(Note 2)

Note 1: The data listed here was audited by certified public accountant.

Note 2: Pending on approval of shareholders at Annual Shareholders' Meeting.

2. Consolidated Income Statement – the Company and Subsidiaries

Unit: NT\$ thousands

<div> <div>Year</div> <div>Item</div> </div>	Financial Summary for The Last Five Years (Note 1)				
	2015	2016	2017	2018	2019
Revenues	3,967,840	4,157,788	4,614,917	4,862,807	4,584,105
Gross profits	1,948,478	2,018,145	2,189,460	2,406,974	2,235,715
Operating income	846,550	833,690	943,311	1,110,730	986,738
Non-operating income and expenses	100,153	84,273	126,479	134,859	81,078
Income before income tax	946,703	917,963	1,069,790	1,245,589	1,067,816
Net income from operations of continued segments	818,321	792,722	935,987	1,070,366	922,313
Net income from operations of discontinued segments	—	—	—	—	—
Net income (Loss)	818,321	792,722	935,987	1,070,366	922,313
Other comprehensive income (income after tax)	(25,886)	(56,403)	(11,703)	(76,197)	1,233
Total comprehensive income	792,435	736,319	924,284	994,169	923,546
Net income attributable to shareholders of the parent	806,806	784,218	926,188	1,063,990	914,902
Net income attributable to non-controlling interests	11,515	8,504	9,799	6,376	7,411
Total comprehensive income attributable to shareholders of the parent	780,920	727,815	914,470	987,931	916,486
Total comprehensive income attributable to non-controlling interests	11,515	8,504	9,814	6,238	7,060
Earnings per share (NT\$)	3.57	3.47	4.10	4.70	4.05

Note 1: The data listed here was audited by certified public accountant.

6.1.2 Entity Financial Summary – IFRS

1. Condensed Balance Sheet – the Parent Company

Unit: NT\$ thousands

Year Item		Financial Summary for The Last Five Years (Note 1)				
		2015	2016	2017	2018	2019
Current assets		3,238,852	3,299,082	3,470,083	3,546,143	3,077,656
Property, plant and equipment		185,281	177,908	165,050	151,248	135,756
Intangible assets		—	—	—	—	—
Other assets		1,541,722	1,540,790	1,595,737	1,749,444	2,003,504
Total assets		4,965,855	5,017,780	5,230,870	5,446,835	5,216,916
Current liabilities	Before distribution	778,756	883,701	968,014	1,002,792	813,085
	After distribution	1,586,176	1,675,290	1,895,304	2,065,783	(Note 2)
Non-current liabilities		159,136	168,749	191,617	244,873	351,166
Total liabilities	Before distribution	937,892	1,052,450	1,159,631	1,247,665	1,164,251
	After distribution	1,745,312	1,844,039	2,086,921	2,310,656	(Note 2)
Equity attributable to stockholders of the parent		4,027,963	3,965,330	4,071,239	4,199,170	4,052,665
Ordinary share capital		2,261,682	2,261,682	2,261,682	2,261,682	2,261,682
Capital surplus		142,309	159,281	142,309	142,309	142,309
Retained earnings	Before distribution	1,591,692	1,568,678	1,699,004	1,832,565	1,680,336
	After distribution	784,272	777,089	771,714	769,574	(Note 2)
Other equity		32,280	(24,311)	(31,756)	(37,386)	(31,662)
Treasury shares		—	—	—	—	—
Non-controlling interests		—	—	—	—	—
Total equity	Before distribution	4,027,963	3,965,330	4,071,239	4,199,170	4,052,665
	After distribution	3,220,543	3,173,741	3,143,949	3,136,179	(Note 2)

Note 1: The data listed here was audited by certified public accountant.

Note 2: Pending on approval of shareholders at Annual Shareholders' Meeting.

2. Condensed Income Statement – the Parent Company

Unit: NT\$ thousands

Item \ Year	Financial Summary for The Last Five Years (Note 1)				
	2015	2016	2017	2018	2019
Revenues	3,601,285	3,695,728	4,130,794	4,358,758	4,052,932
Gross profits	1,719,836	1,734,684	1,895,447	2,084,309	1,851,161
Operating income	810,424	786,319	880,236	1,051,333	852,499
Non-operating income and expenses	119,254	115,062	171,629	181,577	194,313
Income before income tax	929,678	901,381	1,051,865	1,232,910	1,046,812
Net income from operations of continued segments	806,806	784,218	926,188	1,063,990	914,902
Net income from operations of discontinued segments	—	—	—	—	—
Net income (Loss)	806,806	784,218	926,188	1,063,990	914,902
Other comprehensive income (income after tax)	(25,886)	(56,403)	(11,718)	(76,059)	1,584
Total comprehensive income	780,920	727,815	914,470	987,931	916,486
Net income attributable to shareholders of the parent	806,806	784,218	926,188	1,063,990	914,902
Net income attributable to non-controlling interests	—	—	—	—	—
Total comprehensive income attributable to shareholders of the parent	780,920	727,815	914,470	987,931	916,486
Total comprehensive income attributable to non-controlling interests	—	—	—	—	—
Earnings per share (NT\$)	3.57	3.47	4.10	4.70	4.05

Note 1: The data listed here was audited by certified public accountant.

6.1.3 Auditors' Opinion in the Most Recent 5 Years

Year	Accounting Firm	Name of Auditor (CPA)	Opinion
2015	Tseng, Mei-Yu, Yu, Wan-Yuan	KPMG	Unqualified opinion
2016	Tseng, Mei-Yu, Yu, Wan-Yuan	KPMG	Unqualified opinion
2017	Tseng, Mei-Yu, Yu, Wan-Yuan	KPMG	Unqualified opinion
2018	Tseng, Mei-Yu, Yu, Wan-Yuan	KPMG	Unqualified opinion
2019	Yu, Wan-Yuan, Tseng, Mei-Yu	KPMG	Unqualified opinion

6.2 Financial Analyses for the past 5 fiscal years

6.2.1 Consolidated Financial Analysis – IFRS

Item (Note 2)		Year	Financial Analysis for the Last Five Years				
		(Note 1)					
		2015	2016	2017	2018	2019	
Capital Structure Analysis (%)	Debt ratio	20	22	23	24	24	
	Long-term fund to property, plant and equipment ratio	873	900	988	1,060	905	
Solvency Analysis (%)	Current ratio	447	402	391	400	427	
	Quick ratio	378	349	335	339	353	
	Times interest earned (times)	—	—	—	—	775	
Operating Performance Analysis	Accounts collection turnover (times)	5.85	5.91	5.78	5.66	5.60	
	Average collection days	62	62	63	64	65	
	Average inventory turnover (times)	3.71	3.90	4.39	3.93	3.51	
	Average payment turnover (times)	4.29	4.12	4.15	4.04	4.28	
	Average inventory turnover days	98	94	83	93	104	
	Property, plant and equipment turnover (times)	8.34	9.18	10.77	11.96	10.8	
	Total assets turnover (times)	0.78	0.81	0.86	0.88	0.85	
Profitability Analysis	Return on total assets (%)	16	15	18	19	17	
	Return on equity attributable to owners of the parent (%)	20	20	23	26	22	
	Pre-tax income to paid-in capital (%)	42	41	47	55	47	
	Net profit margin (%)	20	19	20	22	20	
	Earnings per share (NT\$)	3.57	3.47	4.10	4.70	4.05	
Cash Flow	Cash flow ratio (%)	90	95	65	114	96	
	Cash flow adequacy ratio (%)	110	111	111	104	94	
	Cash reinvestment ratio (%)	(1)	2	(2)	6	(3)	
Leverage	Operating leverage	1.90	1.99	1.97	1.85	1.91	
	Financial leverage	1.00	1.00	1.00	1.00	1.00	
Analysis of financial radio difference exceeding 20% for the last two years:							
1. The decrease in the cash reinvestment ratio was mainly due to the decrease in net cash flow from operating activities.							

Note 1: The financial analysis figures above are audited by CPA.

Note 2: The equations for the calculation of the above financial ratios are shown as follows.

6.2.2 Entity Financial Analysis – IFRS

Item (Note 2)	Year	Financial Analysis for the Last Five Years (Note 1)				
		2015	2016	2017	2018	2019
Capital structure analysis (%)	Debt ratio	19	21	22	23	22
	Long-term fund to property, plant and equipment ratio	2,174	2,229	2,467	2,776	1,895
Liquidity Analysis (%)	Current ratio	416	373	358	354	379
	Quick ratio	352	325	308	300	321
	Times interest earned (times)	—	—	—	—	891
Operating performance analysis	Accounts collection turnover (times)	5.66	5.92	5.87	5.68	5.11
	Average collection days	64	62	62	64	71
	Average inventory turnover (times)	4.09	4.30	4.93	4.46	4.42
	Average payment turnover (times)	4.35	4.11	4.13	4.02	4.44
	Average inventory turnover days	89	85	74	82	83
	Property, plant and equipment turnover (times)	19.05	20.35	24.09	27.56	22.20
	Total assets turnover (times)	0.73	0.74	0.79	0.80	0.78
Profitability	Return on total assets (%)	16	16	18	20	17
	Return on equity attributable to owners of the parent (%)	20	20	23	26	22
	Pre-tax income to paid-in capital (%)	41	40	47	55	46
	Net profit margin (%)	22	21	22	24	23
	Earnings per share (NT\$)	3.57	3.47	4.10	4.70	4.05
Cash flow	Cash flow ratio (%)	88	95	59	116	85
	Cash flow adequacy ratio (%)	103	102	103	97	97
	Cash reinvestment ratio (%)	(2)	1	(5)	5	(8)
Leverage	Operating leverage	1.76	1.83	1.85	1.72	1.84
	Financial leverage	1.00	1.00	1.00	1.00	1.00
<p>Changes that exceed 20% in the past two years and explanation for those changes:</p> <ol style="list-style-type: none"> 1. Decrease in Long-term fund to property, plant and equipment ratio (%): The decrease was mainly due to increase in Right-of use assets. 2. Decrease in Cash flow ratio (%): The decrease was mainly due to decrease in net cash flow from operating activities. 3. Decrease in Cash reinvestment ratio (%): The decrease was mainly due to decrease in net cash flow from operating activities. 						

Note 2: The data listed here was audited by certified public accountant.

Note 3: The equations for the calculation of the above financial ratios are shown as follows.

The equations for the calculation of the above financial ratios:

1. Capital Structure Analysis:

- (1) Debt ratio = Total liabilities / Total assets
- (2) Long-term fund to property, plant and equipment ratio = (Shareholders' equity + non-current liabilities) / Net property, plant and equipment

2. Liquidity Analysis:

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – inventories – prepaid expenses) / Current liabilities
- (3) Times interest earned = Earnings before interest and taxes / Interest expenses

3. Operating Performance Analysis:

- (1) Average collection turnover = Net sales / Average trade receivables
- (2) Average collection days = 365 / Average collection turnover
- (3) Average inventory turnover = Operating costs / Average inventory
- (4) Average payment turnover = operating costs / Average trade payables
- (5) Average inventory turnover days = 365 / Average inventory turnover
- (6) Property, plant and equipment turnover = Net sales / Average property, plant and equipment
- (7) Total assets turnover = Net sales / total assets

4. Profitability Analysis:

- (1) Return on total assets = [Net income + Interest expenses x (1 – tax rate)] / Average total assets
- (2) Return on equity attributable to shareholders of the parent = Net income attributable to shareholders of the parent / Average equity attributable to shareholders of the parent
- (3) Net profit margin = Net income / Net sales
- (4) Earnings per share = (Net income attributable to shareholders of the parent – preferred stock dividend) / Weighted average number of shares outstanding

5. Cash Flow:

- (1) Cash flow ratio = Net cash provided by operating activities / Current Liabilities
- (2) Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
- (3) Cash flow reinvestment ratio = (Cash provided by operating activities – cash dividends) / (Gross property, plant and equipment + long-term investments + other noncurrent assets + working capital)

6. Leverage:

- (1) Operating leverage = (Net sales – variable cost) / Operating income
- (2) Financial leverage = Operating income / (Operating income – interest expenses)

6.3 Audit Committee's Review Report

Holtek Semiconductor Inc. Audit Committee's Review Report

The Board of Directors has prepared the Company's 2019 Business Report, financial statements and proposal for distribution of profits. The 2019 financial statements were audited by independent auditors, Yu, Wan-Yuan and Tseng, Mei-Yu, of KPMG and issued an Independent Audit Report. The 2019 Business Report, financial statements and proposal for distribution of profits have been checked by the Audit Committee and no irregularities were found. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

To Holtek Semiconductor Inc. 2020 Annual Shareholders' Meeting

Holtek Semiconductor Inc.

Chairman of the Audit Committee: Lu, Cheng-Yueh

March 05, 2020

6.4 Consolidated Financial Statements and Independent Auditors' Report-the Company & Subsidiaries

Please refer to Page 144~220.

6.5 Financial Statements and Independent Auditors' Report-the Parent Company

Please refer to Page 221~290.

6.6 Any insolvency for the Company and the affiliates in the last fiscal period and to the date this annual report was printed, and the effect on the financial position: None

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

7.1 Financial Status

Unit: NT\$ thousands

Item \ Year	2018.12.31	2019.12.31	Difference	
			Amount	%
Current Assets	4,322,111	3,984,290	(337,821)	(8)
Property, Plant and Equipment	398,515	358,515	(40,000)	(10)
Other Assets	834,874	1,030,863	195,989	23
Total Assets	5,555,500	5,373,668	(181,832)	(3)
Current Liabilities	1,079,483	932,568	(146,915)	(14)
Non-current Liabilities	251,918	361,677	109,759	44
Total Liabilities	1,331,401	1,294,245	(37,156)	(3)
Ordinary share capital	2,261,682	2,261,682	0	0
Capital surplus	142,309	142,309	0	0
Retained Earnings	1,832,565	1,680,336	(152,229)	(8)
Total Equity	4,224,099	4,079,423	(144,676)	(3)
Analysis of changes in financial ratios:				
(1) Other assets and non-current liabilities increase due to the increase of the right-of-use assets and deferred tax liabilities.				

7.2 Analysis of Operating Results

Unit: NT\$ thousands

Item \ Year	2018	2019	Difference	
			Amount	%
Net operating revenue	4,862,807	4,584,105	(278,702)	(5.73)
Operating costs	2,455,833	2,348,390	(107,443)	(4.38)
Gross profit	2,406,974	2,235,715	(171,259)	(7.12)
Unrealized profit (loss) from sales	12,624	(17,754)	(30,378)	(240.64)
Realized gross profit	2,394,350	2,253,469	(140,881)	(5.88)
Operating expenses	1,283,620	1,266,731	(16,889)	(1.32)
Net operating income	1,110,730	986,738	(123,992)	(11.16)
Non-operating income and expenses	134,859	81,078	(53,781)	(39.88)
Income before income tax	1,245,589	1,067,816	(177,773)	(14.27)
Income tax expenses	(175,223)	(145,503)	(29,720)	(16.96)
Net income	1,070,366	922,313	(148,053)	(13.83)
Other comprehensive income (net of income tax)	(76,197)	1,233	77,430	101.62
Total comprehensive income	994,169	923,546	(70,623)	(7.10)
Total comprehensive income profit (loss) attributable to shareholders of the company	1,063,990	914,902	(149,088)	(14.01)
Total comprehensive income profit (loss) attributable to non-controlling interests	6,376	7,411	1,035	16.23
Total comprehensive income (loss) attributable to shareholders of the company	987,931	916,486	(71,445)	(7.23)
Total comprehensive income (loss) attributable to non-controlling interests	6,238	7,060	822	13.18
<p>Analysis of changes in financial ratios:</p> <p>(1) Decrease of unrealized profit (loss) from sales among affiliated companies: Decrease in the unrealized profit (loss) from sales among affiliated companies illustrated that products has been delivered to the re-invested companies, but products was on the way to the end customers.</p> <p>(2) Decrease of non-operating income: Decrease of income from affiliated companies.</p> <p>(3) Increase of other comprehensive income: Increase of unrealized loss on equity instruments measured at fair value.</p>				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT\$ thousands

Cash and Cash Equivalents, Beginning of Year	Net Cash Flow from Operating Activities	Net Cash flow from fund-raising	Cash Surplus (Deficit)	Leverage of Cash Deficit	
				Investment Plan	Financing Plan
1,517,632	899,149	(1,410,785)	1,005,996	—	—
Analysis of change in cash flow in 2019: (1)Operating activities: The Company continues to make profits which result in net cash inflows from operating activities. (2)Investing activities: The deposit over three months increases which results in the net cash outflows from investing activities. (3)Financing activities: Paying cash dividends to shareholders which results in net cash outflows from financing activities.					

7.3.2 Cash Flow Analysis for the Coming Year

Unit: NT\$ thousands

Cash and Cash Equivalents, Beginning of Year	Net Cash Flow from Operating Activities	Net Cash flow from fund-raising	Cash Surplus (Deficit)	Leverage of Cash Deficit	
				Investment Plan	Financing Plan
1,005,996	900,000	(950,000)	955,996	—	—
Analysis of change in cash flow in 2020: (1)Operating activities: The net cash inflow of operating activities is due to the expected continuous growth of operation and increased profit. (2)Financing activities: This refers mainly to the increase of expected cash dividend distributed from unappropriated retained earnings, resulting in the net cash outflow of financing activities.					

7.4 Impact of the Latest Major Capital Expenditures on Financial Business: None.

7.5 Main Reasons for Profits or Losses of Latest Reinvestment Policy, Improvement Plan, and Investment Plan for the Coming Year

Investment is mainly to meet the needs of the company's operation and development to establish a complete sales and technical service system. The net investment income recognized by the equity method in 2019 is NT\$73,241 thousand.

1. The profit or loss of the reinvested company is mainly related to the amount of revenue. The Company will work to improve the revenue growth of the reinvested company and control the cost to improve its profitability.
2. Future investment plans are still based on business development needs and evaluate various investment plans at the appropriate time.

7.6 Risk Management Analysis

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finances and Future Response Measures

1. Interest rate: The impact of interest rate fluctuation does not currently have a significant impact on the Company's profits and business operations. The cash equivalent position of the Company is mainly located in fixed deposits and bond funds and the financial institutions that the Company deals with have global records and capital so as to obtain stable and safe investment returns.
2. Foreign exchange rates: In order to avoid the significant impact of foreign exchange rate fluctuations on the Company's revenue and profit, the Company has a designated finance department to monitor exchange rate movements in the foreign exchange market, to collect relevant information and to take the following specific measures:
 - (1) The Sales Division will carefully evaluate foreign exchange rate trends before offering customer quotes. It will also comprehensively consider the factors affecting exchange rate fluctuations and adopt a market-based exchange rate as the basis of sales quotation so as to reduce the impact of spot exchange rate changes on the Company's revenues and profits.
 - (2) In addition to remaining in close contact with banks and financial institutions in order to fully follow foreign exchange rate trends, the finance department will regularly review their operating strategies and risk control procedures to be able to respond to forex volatility. The Company uses foreign currency derivative contracts such as currency forwards to protect against currency exchange rate risks associated with non-NT dollar denominated currency positions.
 - (3) In adjusting to their foreign currency position according to the actual capital demand or exchange rate trends, the Company takes revenues to pay accounts payable using the same currency from multiple foreign currency accounts. This acts as a natural hedge, which is a principle of the Company's exchange strategy.
3. Inflation: The impact of inflation does not currently have a significant impact on the Company's profits and business operations.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending Funds to Other Parties, Endorsements/Guarantees, and Financial Derivatives Transactions

1. The Company did not engage in high-risk, high-leveraged investments, lending funds to

other parties, Endorsements/Guarantees in the previous year. If required, financial derivatives transactions are mainly done to avoid the risk of exchange rate fluctuations of foreign currency deposits, foreign currency receivables and accounts payable. Therefore, the Company executes proper hedging strategies and other capital markets financing instruments to ensure that their financing costs are at a comparatively low level.

2. The Company has conducted the “Procedures for Lending Funds to Other Parties”, the “Procedures for Endorsements/Guarantees”, and “Procedures for Acquisition or Disposal of Assets and Financial Derivatives Transactions”. A dedicated department has been assigned to execute operating procedures and risk management in accordance with the aforementioned procedures for which no significant loss has occurred.

7.6.3 Future Research & Development Projects and Corresponding Budget

The Company is focused in the area of MCU and peripheral ICs, which are used in the home appliances, health measurement, securities & safety protection, computer peripheral, industrial control, automotive electronics, instrument display, etc. application areas. To increase their product competitiveness, the Company consistently re-invests 15%~20% of annual turnover in improving its R&D technology and remains close to customer market demands. It also works in close coordination with upstream and downstream manufacturers to meet customers’ delivery requirements and maintain the stability of both supply and delivery.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

The Company consistently monitors any changes in local and foreign policies and makes appropriate amendments to our systems when necessary. During 2019 and as of the date of publication of this annual report, changes in related laws have not had a significant impact on our operations.

7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales

In facing the challenge of continuous semiconductor industry technology improvements, the Company not only invests in designing niche products in various applications but also focuses on cooperating with upstream manufacturers in response to technological changes and industrial innovations.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company’s Response Measures

The Company retains a prudent business philosophy and maintains its existing good corporate brand image. Also, the strict internal control and crisis management mechanism has been regulated to effectively prevent any crisis from occurring to ensure the sustainable operation of the Company.

7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

Not Applicable.

7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans

Not Applicable.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

1. The Company has been in excellent operating condition since its establishment in 1998.

Fabs collaborated with the Company have always provided priority giving adequate capacity during times of large scale operations. In addition, when considering risk reduction associated with any consolidation of sales or purchasing operations and considering the comprehensive factors such as production capacity, process technology, quality yield and delivery date, the Company also actively looks for alternative fab production capacity. Currently, the Company cooperates with several large fabs, packaging and testing companies. There is no over-concentration in one particular area.

2. The Company has been actively expanding niche markets for many years. Here the customer base is spread over all major global markets, including China, to fully achieve risk diversification and avoid the risk of excessive concentration of sales. In addition, the Company will strengthen credit management, require the provision of corresponding collateral, and continuously track the collection of accounts, so as to maintain stable business results.

7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors or Shareholders with Shareholdings of over 10%

None

7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights

None

7.6.12 Major Law Suits, Non-Contentious Matters, or Administrative Actions involving the Directors, general manager, owners, shareholders that hold more than 10% of the equity shares, with sentence or pending on court decision, the result of which may significantly affect the shareholders' equity or stock price of the Company, the action taken in response to the aforementioned disputes, the target amount involved, the date on which the law suit started, the parties concerned, and the status as of the day this report was printed

None

7.6.13 Other Major Risks

The Total Information System Division is responsible for information security planning and regular reports to the general manager's office on the implementation of information security policies to control and maintain important operational functions such as operations and accounting, etc.

The control operations are as follows:

1. Endpoint protection: endpoint refers to PCs and server and their protection mechanisms which include:
 - (1) Antivirus software: Install antivirus software on personal computers and servers to block viruses and malicious programs to prevent personnel from visiting malicious websites, phishing websites, etc.
 - (2) Maintain updates: The security vulnerability of the operating system and software is one of the root causes of information security problems. Operating systems and software will be kept updated at all times to effectively decrease vulnerability and reduce risks.
2. Network security:
 - (1) New generation firewall: In response to the increasing severity of information security challenges, traditional firewalls are insufficient to monitor illegal communication. As a result the company has established a new generation of

firewalls which are able to provide control according to all application types, offering greater security. This also includes an intrusion prevention system, which is a computer network security device that can monitor web access or e-mail transmission. This can immediately interrupt, adjust or isolate abnormal or harmful Internet communication behavior.

- (2) Web access protection: "Securemail" from Chunghwa Telecom Co., Ltd. is used to screen out spam, viruses, blackmails and other e-mails.
- (3) Threat Prevention mechanism: FireEye Threat Prevention Platform is a protection solution especially designed to oppose Internet crimes and APT (advanced persistent Threat), providing automatic threat forensics and dynamic malware protection services to avoid risks due to potential threats.

3. Data protection:

- (1) Backup data: The company's important data is backed up every night using its backup systems. The backup media used is hard disk, which is faster and for which backup data is recoverable.
- (2) Remote backup: Backup data is immediately saved and transferred to a remote location using the NetBackup Auto Image Replication mechanism for the network and backup systems.

4. Network system checking mechanism:

- (1) Self-detection: Scan the server using vulnerability scanning software every half year to find out any server vulnerabilities and provide any required solutions.
- (2) Outsourcing testing: Cooperate with security consulting companies, collect and analyse packets through the network irregularly every year, so as to ensure the security of servers within the Company. The Intranet portion is configured with Deep Discovery Advisor (DDI) to analyse any suspect Intranet behavior. If there are any security problems, the company can request assistance from the security advisory group. Experts who are familiar with APT attacks can use the detection and analysis data to identify and offer solutions.

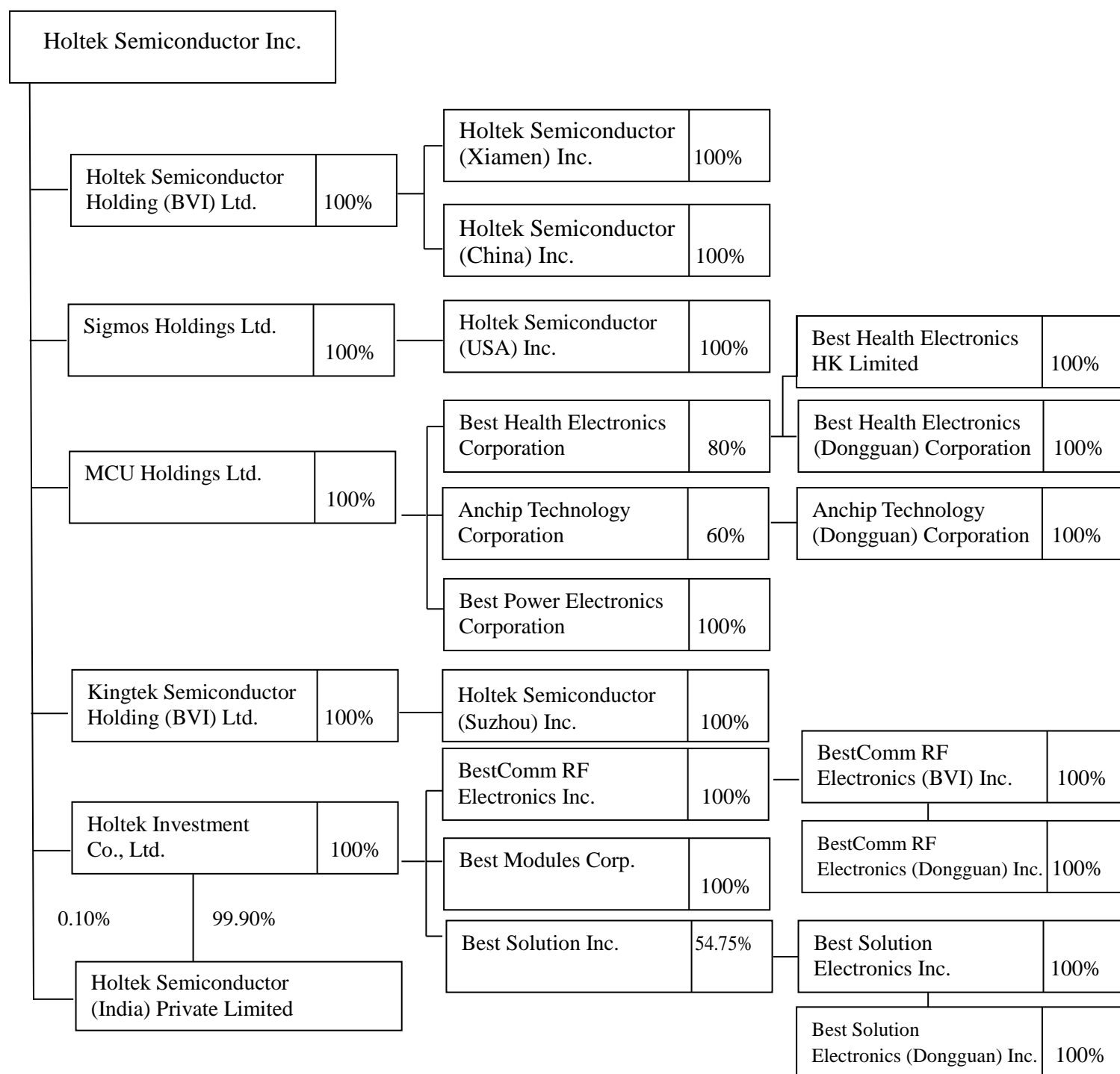
7.7 Other Material Events

None

VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Affiliated Companies Chart



8.1.2 Profile of various associated enterprises:

As of Dec. 31, 2019

Company Name	Date of Establishment	Address	Paid-in capital size	Main scope of operations or production
Holtek Semiconductor Holding (BVI) Ltd.	1999.10	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$15,253,360	Foreign investment activities
Sigmos Holdings Ltd.	2000.12	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$200,000	Foreign investment activities
MCU Holdings Ltd.	2002.05	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$500,000	Foreign investment activities
Kingtek Semiconductor Holding (BVI) Ltd.	2002.01	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$2,000,000	Foreign investment activities
Holtek Investment Co., Ltd.	2003.03	2F., No.136, Datong Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	NT\$429,826,000	Investment activities
Holtek Semiconductor (Xiamen) Inc.	2008.02	Room 202, No.34, Guanri Road, Software Park (Phase 2), Xiamen, China	US\$3,500,000	Providing sales of integrated circuit and technical support.
Holtek Semiconductor (China) Inc.	2012.07	Room 101, Building No. 10, Xinzhu Court, (No. 1 Headquarters), No. 4 Xinzhu Road, Songshan Lake, Dongguan, China	RMB\$62,000,000	Providing sales and technical services of electronic components and integrated circuits.
Holtek Semiconductor (USA), Inc.	2001.05	19 Hammond, Suite 513, Irvine, CA 92618, USA	US\$200,000	Providing sales and technical services of electronic components and integrated circuits.
Best Health Electronics Corporation	2017.06	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	RMB\$6,000,000	Foreign investment activities

Company Name	Date of Establishment	Address	Paid-in capital size	Main scope of operations or production
Best Health Electronics (Dongguan) Corporation	2017.09	Room 301, Building No. 10, Xinzhu Court, No. 4 Xinzhu Road, Songshan Lake, Dongguan, China	RMB\$5,000,000	Providing sales and technical services of electronic components and integrated circuits using in health & measurement applications.
Best Health Electronics HK Limited	2019.09	15/F., BOC Group Life Assurance Tower 136 Des Voeux Road Central, Central, Hong Kong	RMB\$300,000	Providing sales and technical services of electronic components and integrated circuits using in health & measurement applications.
Anchip Technology Corporation	2015.11	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	RMB\$1,000,000	Foreign investment activities
Anchip Technology (Dongguan) Corporation	2016.11	Room 401, Building No. 10, Xinzhu Court, No.4 Xinzhu Road, Songshan Lake, Dongguan, China	RMB\$300,000	Providing sales and technical services of electronic components and integrated circuits using in security & safe applications.
Best Power Electronics Corporation	2018.05	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	RMB\$2,000,000	Foreign investment activities
Holtek Semiconductor (Suzhou) Inc.	2002.04	Unit 7/8, 3F., Building D, No.5, Xinghan Street, Suzhou Industrial Park, Suzhou, China	US\$2,000,000	Providing sales and technical services of electronic components and integrated circuits.
BestComm RF Electronics Inc.	2014.01	2F., No.136, Datong Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	NT\$40,000,000	Providing sales and technical services of electronic components and integrated circuits using in RF related applications.

Company Name	Date of Establishment	Address	Paid-in capital size	Main scope of operations or production
BestComm RF Electronics (BVI) Inc.	2014.03	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	RMB\$3,000,000	Foreign investment activities
BestComm RF Electronics (Dongguan) Inc.	2018.01	Room 201, Building No. 10, Xinzhu Court, No.4 Xinzhu Road, Songshan Lake, Dongguan, China	RMB\$2,000,000	Providing sales and technical services of electronic components and integrated circuits using in RF related applications.
Best Modules Corp.	2016.05	1F., No.18, Ln. 20, Jinshan 1st St., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	NT\$10,000,000	Providing sales and technical services of MCU modules.
Best Solution Inc.	2008.05	4F.-2, No.3-2, Park St., Nangang Dist., Taipei City 115, Taiwan (R.O.C.)	NT\$20,000,000	Providing sales and technical services of electronic components and integrated circuits using in touch related applications.
Best Solution Electronics Inc.	2008.08	Portcullis Chambers, 4 th Floor Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands	US\$200,000	Foreign investment activities
Best Solution Electronics (Dongguan) Inc.	2019.10	Room 408, Building No. 10, Xinzhu Court, No.4 Xinzhu Road, Songshan Lake, Dongguan, China	RMB\$1,000,000	Providing sales and technical services of electronic components and integrated circuits using in touch related applications.
Holtek Semiconductor (India) Private Limited	2018.04	1004,10 th Floor, Prestige Meridian 1, MG Road Bengaluru – 560001	INR\$6,485,000	Providing sales and technical services of electronic components and integrated circuits.

8.1.3 Common Shareholders of Holtek and its Subsidiaries or its Affiliates with Actual of Deemed Control: None

8.1.4 Business Scope of Holtek and its Affiliated Companies

The business scope of the Company and its affiliated companies includes providing sales and technical services of electronic components and integrated circuits technical support and performing foreign investment activities.

8.1.5 List of Directors and General Manager of Holtek's affiliated companies

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
Holtek Semiconductor Holding (BVI) Ltd.	Director	Holtek Semiconductor Inc. Rep.: Wu, Chi-Yung	15,253,360	100%
	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung		
Sigmos Holdings Ltd.	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung	200,000	100%
	Director	Holtek Semiconductor Inc. Rep.: Lin, Cheng-Fung		
MCU Holdings Ltd.	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung	500,000	100%
	Director	Holtek Semiconductor Inc. Rep.: Lin, Cheng-Fung		
Kingtek Semiconductor Holding (BVI) Ltd.	Director	Holtek Semiconductor Inc. Rep.: Wu, Chi-Yung	2,000,000	100%
	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung		
Holtek Investment Co., Ltd.	Chairman	Holtek Semiconductor Inc. Rep.: Wu, Chi-Yung	42,982,600	100%
	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung		
	Director	Holtek Semiconductor Inc. Rep.: Chang, Chih		
	Supervisor	Holtek Semiconductor Inc. Rep.: Liao, Ming-Tung		
Holtek Semiconductor (India) Private Limited	Director	Holtek Semiconductor Inc. Rep.: Gau, Kuo-Tung	6,485,000	100%
	Director	Holtek Semiconductor Inc. Rep.: Tsai, Jung-Tsung		
	Director	Holtek Semiconductor Inc. Rep.: Krishna Chaitanya Kamasani		
	General Manager	Tsai, Jung-Tsung	--	--

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
Holtek Semiconductor (Xiamen) Inc.	Chairman	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Wu, Chi-Yung	--	100%
	Director	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Gau, Kuo-Tung		
	Director	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Chang, Chih		
	Supervisor	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Liao, Ming-Tung		
	General Manager	Chang, Chia-Chih	--	--
Holtek Semiconductor (China) Inc.	Chairman	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Wu, Chi-Yung	--	100%
	Director	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Gau, Kuo-Tung		
	Director	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Tsai, Jung-Tsung		
	Supervisor	Holtek Semiconductor Holding (BVI) Ltd. Rep.: Liao, Ming-Tung		
	General Manager	Tsai, Jung-Tsung	--	--
Holtek Semiconductor (USA), Inc.	Director	Sigmos Holdings Ltd. Rep.: Gau, Kuo-Tung	200,000	100%
	Director	Sigmos Holdings Ltd. Rep.: Tsai, Jung-Tsung		
	General Manager	Jack Wang	--	--
Best Health Electronics Corporation	Director	MCU Holdings Ltd. Rep.: Lin, Cheng-Fung	4,800	80%
	Director	MCU Holdings Ltd. Rep.: Wang, Min-Kun		
Anchip Technology Corporation	Director	MCU Holdings Ltd. Rep.: Wang, Min-Kun	600	60%
	Director	MCU Holdings Ltd. Rep.: Chou, Ling-Na		
	Director	Mao Qiang	400	40%

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
Best Health Electronics HK Limited	Director	Best Health Electronics Corporation Rep.: Wang, Min-Kun	300,000	100%
Best Health Electronics (Dongguan) Corporation	Chairman	Best Health Electronics Corporation Rep.: Hung, Hsiang-Wei	--	100%
	Director	Best Health Electronics Corporation Rep.: Gau, Kuo-Tung		
	Director	Best Health Electronics Corporation Rep.: Wang, Min-Kun		
	Supervisor	Best Health Electronics Corporation Rep.: Liao, Ming-Tung		
	General Manager	Hung, Hsiang-Wei	--	--
Anchip Technology (Dongguan) Corporation	Chairman	Anchip Technology Corporation Rep.: Mao Qiang	--	100%
	Director	Anchip Technology Corporation Rep.: Wang, Min-Kun		
	Director	Anchip Technology Corporation Rep.: Chou, Ling-Na		
	Supervisor	Anchip Technology Corporation Rep.: Liao, Ming-Tung		
	General Manager	Mao Qiang	--	--
Best Power Electronics Corporation	Director	MCU Holdings Ltd. Rep.: Lin, Cheng-Fung	2,000	100%
	Director	MCU Holdings Ltd. Rep.: Wang, Min-Kun		
Holtek Semiconductor (Suzhou) Inc.	Chairman	Kingtek Semiconductor Holding (BVI) Ltd. Rep.: Wu, Chi-Yung	--	100%
	Director	Kingtek Semiconductor Holding (BVI) Ltd. Rep.: Gau, Kuo-Tung		
	Director	Kingtek Semiconductor Holding (BVI) Ltd. Rep.: Chang, Chih		
	Supervisor	Kingtek Semiconductor Holding (BVI) Ltd. Rep.: Liao, Ming-Tung		
	General Manager	Gau, Kuo-Tung	--	--

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
BestComm RF Electronics Inc.	Chairman	Holtek Investment Co., Ltd. Rep.: Wu, Chi-Yung	4,000,000	100%
	Director	Holtek Investment Co., Ltd. Rep.: Gau, Kuo-Tung		
	Director	Holtek Investment Co., Ltd. Rep.: Wang, Min-Kun		
	Supervisor	Holtek Investment Co., Ltd. Rep.: Liao, Ming-Tung		
	General Manager	Lee, Wen-Yi	--	--
BestComm RF Electronics (BVI) Inc.	Director	BestComm RF Electronics Inc. Rep.: Wu, Chi-Yung	30,000	100%
	Director	BestComm RF Electronics Inc. Rep.: Wang, Min-Kun		
BestComm RF Electronics (Dongguan) Inc.	Chairman	BestComm RF Electronics Inc. Rep.: Lee, Wen-Yi	--	100%
	Director	BestComm RF Electronics Inc. Rep.: Gau, Kuo-Tung		
	Director	BestComm RF Electronics Inc. Rep.: Wang, Min-Kun		
	Supervisor	BestComm RF Electronics Inc. Rep.: Liao, Ming-Tung		
	General Manager	Hsiao, Chien-Tung	--	--
Best Modules Corp.	Chairman	Holtek Investment Co., Ltd. Rep.: Wu, Chi-Yung	1,000,000	100%
	Director	Holtek Investment Co., Ltd. Rep.: Gau, Kuo-Tung		
	Director	Holtek Investment Co., Ltd. Rep.: Tsai, Jung-Tsung		
	Supervisor	Holtek Investment Co., Ltd. Rep.: Liao, Ming-Tung		
	General Manager	Yeh, Ping-Lin	--	--

Company Name	Title	Name or Representative	Holding Shares	
			Shares	%
Best Solution Technology Inc.	Chairman	Holtek Investment Co., Ltd. Rep.: Wu, Chi-Yung	800,000	40%
	Director	Holtek Investment Co., Ltd. Rep.: Wang, Min-Kun		
	Director	Signal Electronic Co. Ltd. Rep.: Lin, Chi-Kuei	737,500	36.875%
	Supervisor	NEW GAIN INVESTMENT INC. Rep.: Chou, Ling-Na	212,500	10.625%
	General Manager	Yueh, Cheng-Ping	125,000	6.25%
Best Solution Electronics Inc.	Director	Best Solution Inc. Rep.: Wang, Min-Kun	200,000	100%
Best Solution Electronics (Dongguan) Inc.	Chairman	Best Solution Electronics Inc. Rep.: Yueh, Cheng-Ping	--	100%
	Director	Best Solution Electronics Inc. Rep.: Wang, Min-Kun		
	Director	Best Solution Electronics Inc. Rep.: Lin, Chi-Kuei		
	Supervisor	Best Solution Electronics Inc. Rep.: Liao, Ming-Tung		
	General Manager	Yueh, Cheng-Ping	--	--

8.1.6 Operation Highlights of Holtek's Affiliated Companies

As of December 31, 2019; Unit: NT\$ thousands (except for EPS=NT\$)

Company Name	Capital	Assets	Liabilities	Net Worth	Net Sales	Income (loss) from Operation	Net Income	EPS (NT\$)
Holtek Semiconductor Holding (BVI) Ltd.	475,831	608,165	0	608,165	411,096	(92)	94,549	6.20
Holtek Semiconductor (Xiamen) Inc.	113,551	259,168	140,004	119,164	418,878	10,726	10,359	Note 2
Holtek Semiconductor (China) Inc.	292,423	879,687	482,793	396,894	1,045,110	92,518	84,616	Note 2
Sigmos Holdings Ltd.	6,898	23,030	0	23,030	0	0	798	3.99
Holtek Semiconductor (USA), Inc.	6,898	23,774	744	23,030	25,477	904	798	0.40
MCU Holdings Ltd.	16,333	710,248	0	710,248	0	(115)	73,761	147.52
Kingtek Semiconductor Holding (BVI) Ltd.	69,542	127,433	0	127,433	0	0	11,287	5.64
Holtek Semiconductor (Suzhou) Inc.	69,712	272,883	145,489	127,394	412,191	12,720	11,288	Note 2
Holtek Investment Co., Ltd.	429,826	507,793	60	507,733	0	(2)	7,625	0.18
Best Solution Technology Inc.	20,000	62,080	23,424	38,656	77,901	9,993	10,644	5.32
Best Solution Electronics Inc.	4,284	4,928	2,466	2,462	0	(1,823)	(1,823)	Note 2
BestComm RF Electronics Inc.	6,140	26,748	0	26,748	266,498	6,058	3,625	18.13
BestComm RF Electronics (Dongguan) Inc.	40,000	16,391	2,604	13,787	6,110	(3,228)	(7,824)	(1.96)
BestComm RF Electronics (BVI) Inc.	14,054	6,189	0	6,189	9,442	890	(4,548)	(151.60)
BestComm RF Electronics (Dongguan) Inc.	9,214	3,313	2,258	1,055	4,850	(5,254)	(5,246)	Note 2
Best Modules Corp.	10,000	9,719	699	9,020	4,656	(880)	(875)	(0.88)
Anchip Technology Corporation	5,071	7,817	0	7,817	19,730	2,727	3,891	3,891.04
Anchip Technology (Dongguan) Corporation	1,521	11,047	9,432	1,615	25,082	977	980	Note 2
Best Health Electronics Corporation	26,410	30,686	0	30,686	71,013	8,350	5,195	865.78
Best Health Electronics (Dongguan) Corporation	23,057	21,536	11,894	9,642	30,352	(5,153)	(5,118)	Note 2
Best Health Electronics HK Limited	1,299	3,764	695	3,069	5,583	1,795	1,796	5.99
Best Power Electronics Corporation	8,844	8,746	0	8,746	0	(39)	149	74.37
Holtek Semiconductor (India) Private Limited	2,948	1,840	357	1,483	3,561	(205)	(121)	(0.02)

Note 1: If the affiliated company is a foreign company, the listed relevant figures are retranslated at the functional currency rates of exchange ruling at the balance sheet date. The exchange rate are NT\$ 29.97=US\$ 1.00, NT\$ 4.277= RMB 1.00 and NT\$ 0.4209= INR 1.00, respectively.

Note 2: This affiliated Company is a limited company and has not issued any outstanding shares. Therefore, EPS is not available to calculate.

8.1.7 Representation Letter

Representation Letter

The entities that are required to be included in the combined financial statements of Holtek Semiconductor Inc. as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard No. 10, "Consolidated Financial Statements" endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Holtek Semiconductor Inc. and its subsidiaries do not prepare a separate set of combined financial statements.

Hereby declare

Company Name: Holtek Semiconductor Inc.

Chairman: WU, CHI YUNG

Date: February 5, 2020

8.1.8 Business Reports of Affiliated Companies: None.

8.2 Private Placement Securities: None.

8.3 Holding or Disposition of the Company's Stock List by Subsidiaries: None.

8.4 Other Supplementary Information: None.

8.5 The Most Recent Fiscal Year and Up to the Date of This Annual Report Printed, Any Event That Significantly Affects the Shareholders' Equity or Stock Price of the Company as Stated in Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act: None.

Appendix

Appendix 1

Independent Auditors' Report

To the Board of Directors of Holtek Semiconductor Inc.:

Opinion

We have audited the consolidated financial statements of Holtek Semiconductor Inc. and its subsidiaries (collectively as “the Group”), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Emphasis of Matter

As stated in Note 3(1), the Group initially adopt the IFRS 16, “*Leases*” on January 1, 2019 and apply the modified retrospective approach, with no restatement of comparative period amounts. Our conclusion is not qualified in respect of this matter.

Key Audit Matters

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

1. Revenue recognition — related-party and unrealized gross profits on sales to associates

Refer to Note 4(14) “Revenue recognition”, and Note 7(2) “Significant related-party transactions” to the consolidated financial statements.

Description of key audit matter:

The revenue is the basic operational activity of the Group's sustainable operation, which is related

to the operational performance of the enterprise, and because the main transaction is the relationship person, it has a high risk of high fraud. Therefore, the valuation of receivables is one of the key audit matters for our audit.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included testing the Group's controls surrounding revenue recognition and Collection operation cycle and Evaluating the reasonableness of commercial transactions; Evaluating revenue trend analysis; understanding the transactions of related parties and execution of the accounts; Executing the related party's letter of confirmation; Assessing the correctness and reasonableness of the gross profit margin of sales and the unrealized gross profit on sales to associates; and assessing whether the Group has properly disclosed relevant information about the sales of the related parties and unrealized gross profit on sales to associates.

2. Valuation of Inventories

Refer to Note 4(8) "Summary of Significant Accounting Policies – Inventories", Note 5 "Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty", and Note 6(5) "Description of Significant Accounts – Inventories, net" to the consolidated financial statements.

Description of key audit matter:

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgments and estimates to determine the net realizable value of inventory for obsolescence and unmarketable items at the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon. However, due to the rapid industrial transformation, the above estimation may have a significant change. Therefore, the allowance to reduce inventory to market is one of the key audit matters for our audit.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included reviewing the inventory age reports to analyze the changes in the inventory levels; performing computer audit procedures in order to check the correctness of age of inventory report; reviewing production and marketing meetings to assess inventory destocking; evaluating the inventory in accordance with the group's established accounting policies; performing inventory traceability tests; and verifying the reasonableness of the sluggish loss.

Other Matters

Holtek Semiconductor Inc. has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion with emphasis-of-matter paragraph.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (inclusive of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Yu, Wan Yuan and Tseng, Mei Yu.

KPMG

Hsinchu, Taiwan (Republic of China)

February 14, 2020

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance, and cash flows in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Holtek Semiconductor Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars)

Assets		December 31, 2019		December 31, 2018				December 31, 2019		December 31, 2018	
		Amount	%	Amount	%			Amount	%	Amount	%
Current assets:						Liabilities and Equity					
1100	Cash and cash equivalents (note 6(1))	\$ 1,005,996	19	1,517,632	27	Current liabilities:					
1110	Financial assets measured at fair value through profit or loss-current (note 6(2))	491,203	9	486,555	9	2150	Notes payable	\$ 111,050	2	125,021	2
1170	Notes and accounts receivable, net (note 6(4))	97,688	2	97,604	2	2170	Accounts payable	371,558	7	489,388	9
1180	Accounts receivable from related parties (notes 6(4) and 7)	692,373	13	749,789	13	2201	Salary payable	268,730	5	281,788	5
130X	Inventories (note 6(5))	682,609	13	654,866	12	2230	Current income tax liabilities	67,271	1	97,904	2
1476	Other financial assets — current (notes 6(6) 、7 and 8)	986,846	18	784,175	14	2300	Other current liabilities (note 6(10))	113,959	2	85,382	2
1479	Other current assets	27,575	-	31,490	1			932,568	17	1,079,483	20
		3,984,290	74	4,322,111	78	Non-current liabilities:					
Non-current assets:						2570	Deferred tax liabilities (note 6 (13))	199,819	4	166,610	3
1518	Equity instruments measured at fair value through other comprehensive income — non-current (note 6(3))	302,305	6	265,161	5	2580	lease liabilities — non-current (note 6(10))	73,586	1	-	-
1550	Investments accounted for using equity method (notes 6(7) and 7)	467,690	9	449,015	8	2640	Net defined benefit liabilities (note 6 (12))	79,730	2	76,602	1
1600	Property, plant and equipment (note 6(8))	358,515	7	398,515	7	2645	Guarantee deposit received	8,542	-	8,706	-
1755	Right-of-use assets (note 6(9))	92,073	2	-	-			361,677	7	251,918	4
1840	Deferred tax assets (note 6 (13))	87,196	1	69,706	1	Total liabilities		1,294,245	24	1,331,401	24
1900	Other non-current assets	81,599	1	50,992	1	Equity (note 6(14)) :					
		1,389,378	26	1,233,389	22	Equity attributable to shareholders of the parent					
Total assets		\$ 5,373,668	100	5,555,500	100	3110	Ordinary share capital	2,261,682	42	2,261,682	41
						3200	Capital surplus	142,309	3	142,309	3
						3300	Retained earnings	1,680,336	31	1,832,565	33
						3400	Other equity	(31,662)	-	(37,386)	(1)
							Total equity attributable to shareholders of the parent	4,052,665	76	4,199,170	76
						36XX	Non-controlling interests	26,758	-	24,929	-
							Total equity	4,079,423	76	4,224,099	76
							Total liabilities and equity	\$ 5,373,668	100	5,555,500	100

(See accompanying notes to consolidated financial statements.)

Chairman : Wu, Chi Yung

General Manager : Gau, Kuo Tung

Accounting Manager : Liao, Ming Tung

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Holtek Semiconductor Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018
(Expressed in thousands of New Taiwan Dollars, except for Earnings per Share)

		2019		2018	
		Amount	%	Amount	%
4000	Revenues (notes 6(17) 、 7)	\$ 4,584,105	100	4,862,807	100
5000	Cost of Goods Sold (notes 6(5) 、 (12) 、 (16) 、 7 and 12)	<u>2,348,390</u>	<u>51</u>	<u>2,455,833</u>	<u>51</u>
	Gross profits	2,235,715	49	2,406,974	49
5910	Unrealized gross profits on sales to associates	<u>(17,754)</u>	<u>-</u>	<u>12,624</u>	<u>-</u>
	Realized gross profits	<u>2,253,469</u>	<u>49</u>	<u>2,394,350</u>	<u>49</u>
	Operating expenses (notes 6(12) 、 (16) and 12) :				
6100	Selling	121,421	3	115,839	2
6200	General and administrative	355,351	8	381,627	8
6300	Research and development	793,025	17	783,088	16
6450	Expected credit impairment loss (note 6(4))	<u>(3,066)</u>	<u>-</u>	<u>3,066</u>	<u>-</u>
		<u>1,266,731</u>	<u>28</u>	<u>1,283,620</u>	<u>26</u>
	Operating income	<u>986,738</u>	<u>21</u>	<u>1,110,730</u>	<u>23</u>
	Non-operating income and expenses:				
7020	Other gains and losses (note 6(18))	(6,449)	-	15,471	1
7070	Investment income accounted for using equity method (note 6(7))	73,241	2	97,105	2
7100	Interest income	15,666	-	14,568	-
7130	Dividends income	-	-	7,715	-
7510	Interest expense (note 6(10))	<u>(1,380)</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>81,078</u>	<u>2</u>	<u>134,859</u>	<u>3</u>
	Income before income tax	1,067,816	23	1,245,589	26
7950	Income tax (note 6 (13))	<u>145,503</u>	<u>3</u>	<u>175,223</u>	<u>4</u>
	Net income	<u>922,313</u>	<u>20</u>	<u>1,070,366</u>	<u>22</u>
8300	Other comprehensive income:				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of the defined benefit plans(note 6(12))	(5,175)	-	(5,618)	-
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	37,144	1	(58,603)	(1)
8349	Income tax relating to items that will be not reclassified subsequently (note 6(13))	<u>(1,035)</u>	<u>-</u>	<u>(1,124)</u>	<u>-</u>
	Total items that will not be reclassified subsequently to profit or loss	<u>33,004</u>	<u>1</u>	<u>(63,097)</u>	<u>(1)</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of financial statements of foreign affiliates	(25,369)	(1)	(16,569)	-
8371	Exchange differences on translation of financial statements of invested associates accounted for using equity method	(14,257)	-	(521)	-
8399	Income tax relating to items that may be reclassified subsequently (note 6(13))	<u>(7,855)</u>	<u>-</u>	<u>3,990</u>	<u>-</u>
	Total items that may be reclassified subsequently to profit or loss	<u>(31,771)</u>	<u>(1)</u>	<u>(13,100)</u>	<u>-</u>
8300	Other comprehensive income	<u>1,233</u>	<u>-</u>	<u>(76,197)</u>	<u>(1)</u>
	Total comprehensive income	<u>\$ 923,546</u>	<u>20</u>	<u>994,169</u>	<u>21</u>
	Net income attributable to:				
8610	Shareholders of the parent	\$ 914,902	20	1,063,990	22
8620	Non-controlling interests	<u>7,411</u>	<u>-</u>	<u>6,376</u>	<u>-</u>
		<u>\$ 922,313</u>	<u>20</u>	<u>1,070,366</u>	<u>22</u>
	Total comprehensive income (loss) attributable to:				
8710	Shareholders of the parent	\$ 916,486	20	987,931	21
8720	Non-controlling interests	<u>7,060</u>	<u>-</u>	<u>6,238</u>	<u>-</u>
		<u>\$ 923,546</u>	<u>20</u>	<u>994,169</u>	<u>21</u>
	Earnings per share (New Taiwan Dollars) (note 6(15))				
9750	Basic earnings per share	<u>\$ 4.05</u>		<u>4.70</u>	
9850	Diluted earnings per share	<u>\$ 4.01</u>		<u>4.66</u>	

(See accompanying notes to consolidated financial statements.)

Chairman : Wu, Chi Yung General Manager : Gau, Kuo Tung Accounting Manager : Liao, Ming Tung

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Holtek Semiconductor Inc. and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018
(Expressed in thousands of New Taiwan Dollars)

	Equity attributed to shareholders of the parent											
	Retained earnings						Total other equity interest					
	Ordinary share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments measured at fair value through other comprehensive income	Total other equity interest	Total equity attributed to shareholders of the parent	Non- controlling interests	Total equity
Balance as of January 1, 2018	<u>\$ 2,261,682</u>	<u>142,309</u>	<u>750,029</u>	<u>26,954</u>	<u>922,021</u>	<u>1,699,004</u>	<u>(31,756)</u>	<u>-</u>	<u>(31,756)</u>	<u>4,071,239</u>	<u>27,607</u>	<u>4,098,846</u>
Effects of retrospective application	-	-	-	-	-	-	-	67,290	67,290	67,290	-	67,290
Balance as of January 1, 2018 after adjustments	<u>2,261,682</u>	<u>142,309</u>	<u>750,029</u>	<u>26,954</u>	<u>922,021</u>	<u>1,699,004</u>	<u>(31,756)</u>	<u>67,290</u>	<u>35,534</u>	<u>4,138,529</u>	<u>27,607</u>	<u>4,166,136</u>
Net income for the period	-	-	-	-	1,063,990	1,063,990	-	-	-	1,063,990	6,376	1,070,366
Other comprehensive income for the period	-	-	-	-	(4,494)	(4,494)	(12,962)	(58,603)	(71,565)	(76,059)	(138)	(76,197)
Total comprehensive income for the period	-	-	-	-	1,059,496	1,059,496	(12,962)	(58,603)	(71,565)	987,931	6,238	994,169
Appropriation and distribution of retained earnings:												
Appropriation for legal reserve	-	-	92,202	-	(92,202)	-	-	-	-	-	-	-
Appropriation for special reserve	-	-	-	7,445	(7,445)	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	(104,942)	-	(822,348)	(927,290)	-	-	-	(927,290)	-	(927,290)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	1,355	1,355	-	(1,355)	(1,355)	-	-	-
Cash dividends from subsidiaries	-	-	-	-	-	-	-	-	-	-	(8,916)	(8,916)
Balance as of December 31, 2018	<u>2,261,682</u>	<u>142,309</u>	<u>737,289</u>	<u>34,399</u>	<u>1,060,877</u>	<u>1,832,565</u>	<u>(44,718)</u>	<u>(7,332)</u>	<u>(37,386)</u>	<u>4,199,170</u>	<u>24,929</u>	<u>4,224,099</u>
Net income for the period	-	-	-	-	914,902	914,902	-	-	-	914,902	7,411	922,313
Other comprehensive income for the period	-	-	-	-	(4,140)	(4,140)	(31,420)	37,144	5,724	1,584	(351)	1,233
Total comprehensive income for the period	-	-	-	-	910,762	910,762	(31,420)	37,144	5,724	916,486	7,060	923,546
Appropriation and distribution of retained earnings:												
Appropriation for legal reserve	-	-	106,088	-	(106,088)	-	-	-	-	-	-	-
Appropriation for special reserve	-	-	-	2,987	(2,987)	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	(111,275)	-	(951,716)	(1,062,991)	-	-	-	(1,062,991)	-	(1,062,991)
Cash dividends from subsidiaries	-	-	-	-	-	-	-	-	-	-	(5,231)	(5,231)
Balance as of December 31, 2019	<u>\$ 2,261,682</u>	<u>142,309</u>	<u>732,102</u>	<u>37,386</u>	<u>910,848</u>	<u>1,680,336</u>	<u>(76,138)</u>	<u>44,476</u>	<u>(31,662)</u>	<u>4,052,665</u>	<u>26,758</u>	<u>4,079,423</u>

(See accompanying notes to consolidated financial statements.)

Chairman : Wu, Chi Yung

General Manager : Gau, Kuo Tung

Accounting Manager : Liao, Ming Tung

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Holtek Semiconductor Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Expressed in thousands of New Taiwan Dollars)

	2019	2018
Cash flows from operating activities:		
Income before income tax	\$ 1,067,816	1,245,589
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation	82,813	57,598
Amortization	73,185	55,025
Expected credit impairment (loss) of gains on reversal	(3,066)	3,066
Interest expense	1,380	-
Interest income	(15,666)	(14,568)
Dividends income	-	(7,715)
Investment income accounted for using equity method	(73,241)	(97,105)
Unrealized gross profit on sales to associates	(17,754)	12,624
Other items not affecting cash flows, net	6,092	6,893
Changes in operating assets and liabilities:		
Decrease (increase) in Financial assets measured at fair value through profit or loss	(2,853)	97,382
Decrease (increase) in accounts receivable (including related parties)	26,200	(4,751)
Increase in inventories	(47,553)	(71,144)
Increase in other operating assets	(2,435)	(18,577)
Increase (Decrease) in accounts payable (including related parties)	(102,845)	19,821
Decrease in net defined benefit liabilities	(2,798)	(1,953)
Increase (Decrease) in other operating liabilities	(10,722)	8,904
Cash flows from operations	978,553	1,291,089
Interest received	15,469	14,576
Dividends received	55,570	51,763
Interest paid	(1,380)	-
Income tax paid	(149,063)	(126,976)
Net cash flows from operating activities	<u>899,149</u>	<u>1,230,452</u>
Cash flows from investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	2,972
Acquisitions of investments accounted for using equity method	(2,741)	-
Proceeds from disposal of investments accounted for using equity method	830	-
Proceeds from capital reduction of investments accounted for using equity method	1,567	-
Acquisitions of property, plant and equipment	(31,873)	(47,892)
Proceeds from disposals of property, plant and equipment	-	797
Decrease (Increase) in Guarantee deposit paid	2,164	(3,320)
Increase in other financial assets	(197,621)	(57,110)
Increase in other non-current assets	(89,610)	(66,068)
Dividends received	-	7,715
Net cash flows used in investing activities	<u>(317,284)</u>	<u>(162,906)</u>
Cash flows from financing activities:		
Payments of lease liabilities	(17,822)	-
Cash dividends paid	(1,062,991)	(927,290)
Increase in non-controlling interests	(5,231)	(11,823)
Net cash flows used in financing activities	<u>(1,086,044)</u>	<u>(939,113)</u>
Effect of foreign exchange changes	<u>(7,457)</u>	<u>(2,529)</u>
Net increase (decrease) in cash and cash equivalents	(511,636)	125,904
Cash and cash equivalents at beginning of period	<u>1,517,632</u>	<u>1,391,728</u>
Cash and cash equivalents at end of period	<u><u>\$ 1,005,996</u></u>	<u><u>1,517,632</u></u>

(See accompanying notes to consolidated financial statements.)

Chairman : Wu, Chi Yung General Manager : Gau, Kuo Tung Accounting Manager : Liao, Ming Tung

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Amounts expressed in thousands of New Taiwan Dollars,
except for per share information and unless otherwise noted)

1. Organization

Holtek Semiconductor Inc. (“the Company”) was incorporated on October 1, 1998, as a company limited by shares under the laws of the Republic of China (“ROC”) and the ROC Statute for the Establishment and Administration of the Science-Based Industrial Park. The Company began operations on December 11, 1998. The Company established a Hong Kong branch in April 2000. The shares of the Company have been listed on the Taipei Exchange (“TPEX”) since November 4, 2002, and then listed on the Taiwan Stock Exchange (“TWSE”) since September 27, 2004.

The Company and its subsidiaries (collectively as “the Group”) are engaged mainly in the research, development, production, manufacture and sales of integrated circuits.

2. The Authorization of Financial Statements

The accompanying consolidated financial statements were passed for issuance by the Board of Directors on February 5, 2020.

3. New Standards, Amendments and Interpretations Adopted

(1) Impact of adoption of new, revised or amended standards and interpretations endorsed by the Financial Supervisory Commission, ROC (“FSC”)

In preparing the accompanying consolidated financial statements, the Company has adopted the following International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), and Interpretations that have been issued by the International Accounting Standards Board (“IASB”) (collectively, “IFRSs”) and endorsed by the FSC, with effective date from January 1, 2019.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

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

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

A. IFRS 16“*Leases*”

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

The Group applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below:

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(11).

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

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(b) As a lessee

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

The Group decided to apply recognition exemptions to short-term leases and low-value leases of company cars and leases of dormitory.

Leases classified as operating leases under IAS 17. At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

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

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

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

(c) As a lessor

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

(d) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$105,155 of right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.4%.

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

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 49,870
Recognition exemption for:	
short-term leases	(4,250)
Extension and termination options reasonably certain to be exercised	<u>71,165</u>
	<u>116,785</u>
Discounted using the incremental borrowing rate at January 1, 2019	105,155
Finance lease liabilities recognized as at December 31, 2018	<u>-</u>
Lease liabilities recognized at January 1, 2019	<u><u>105,155</u></u>

B. IFRIC 23 “*Uncertainty over Income Tax Treatments*”

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Group estimated the application of the new amendments will not have any material impact on its consolidated financial statements.

(2) The impact of IFRS endorsed by the FSC but not yet effective

According to Ruling No. 1080323028 issued on July 29, 2019 by the FSC, commencing from 2020, the Company is required to adopt the IFRSs that have been endorsed by the FSC with effective date from January 1, 2020. The related new, revised or amended standards and interpretations are set out below:

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 3 “ <i>Definition of a Business</i> ”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “ <i>Interest Rate Benchmark Reform</i> ”	January 1, 2020
Amendments to IAS 1 and IAS 8 “ <i>Definition of Material</i> ”	January 1, 2020

Except for the following items, the Group believes that the adoption of the above IFRS would not have any material impact on its consolidated financial statements.

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

As of the date, the following IFRS have been issued by IASB, but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 10 and IAS 28 “ <i>Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture</i> ”	Effective date to be determined by IASB
IFRS 17 “ <i>Insurance Contracts</i> ”	January 1, 2021

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

The Group is in the process of assessing the impact on financial position and results of operations of the above standards and interpretations. The Group will disclose the related results when the assessment is finalized.

4. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with the “ Regulations Governing the Preparation of Financial Reports by Securities Issuers” (hereinafter referred to as the Regulations) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC (hereinafter referred to as the IFRSs endorsed by the FSC).

(2) Basis of preparation

A. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

- (a) Financial assets measured at fair value through profit or loss are measured at fair value;
- (b) Fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value;
- (c) The net defined benefit liability is recognized as the fair value of the plan assets, less, the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollars (NTD), which is the Company’s functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Total non-controlling interests in the subsidiary are allocated to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

B. List of subsidiaries in the consolidated financial statements

Name of Investor	Name of Subsidiary	Business	Percentage of Ownership at,	
			December 31, 2019	December 31, 2018
the Company	MCU Holdings Ltd. (MCU)	Investment holding company	100%	100%
the Company	Holtek Semiconductor Holding (BVI) Ltd. (Holtek BVI)	Investment holding company	100%	100%
the Company	Sigmos Holdings Ltd. (Sigmos)	Investment holding company	100%	100%
the Company	Kingtek Semiconductor Holding (BVI) Ltd. (Kingtek BVI)	Investment holding company	100%	100%
the Company	Holtek Investment Co., Ltd. (Holtek Investment)	Specialized investment corporation	100%	100%
MCU	Best Health Electronics Corp. (Best Health)	Investment holding company	80%	80%
Best Health	Best Health Electronics (Dongguan) Corporation	Manufacturing, sales and technical services	100%	100%
Best Health	Best Health Electronics HK Limited	Manufacturing, sales and technical services	100% (Note 1)	- (Note 1)
MCU	Anchip Technology Corporation (Anchip)	Investment holding company	60%	60%
Anchip	Anchip Technology (Dongguan) Corporation	Manufacturing, sales and technical services	100%	100%

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Name of Investor	Name of Subsidiary	Business	Percentage of Ownership at,	
			December 31, 2019	December 31, 2018
MCU	Best Power Electronics Corp. (Best Power)	Investment holding company	100% (Note 2)	100% (Note 2)
Holtek BVI	Holtek Semiconductor (Xiamen) Inc.	Manufacturing, sales and technical services	100%	100%
Holtek BVI	Holtek Semiconductor (China) Inc.	Manufacturing, sales and technical services	100%	100%
Sigmos	Holtek Semiconductor (USA) Inc. (Holtek (USA))	Manufacturing, sales and technical services	100%	100%
Kingtek BVI	Holtek Semiconductor (Suzhou) Inc.	Manufacturing, sales and technical services	100%	100%
Holtek Investment	Holtek Semiconductor (INDIA) Private Ltd. (Holtek INDIA)	Manufacturing, sales and technical services	100% (Note 3)	100% (Note 3)
Holtek Investment	Best Solution Technology Inc. (Best Solution)	Manufacturing, sales and technical services	54.75% (Note 4)	54.75% (Note 4)
Best Solution	Best Solution Electronics Inc. (Best Solution BVI)	Investment holding company	100%	100%
Best Solution BVI	Best Solution Technology (Dongguan) Inc.	Manufacturing, sales and technical services	100% (Note 5)	- (Note 5)
Holtek Investment	Best Modules Corp. (Best Modules)	Manufacturing, sales and technical services	100%	100%
Holtek Investment	BestComm RF Electronics Inc. (BestComm)	Manufacturing, sales and technical services	100%	100%
BestComm	BestComm RF Electronics (BVI) Inc. (BestComm BVI)	Investment holding company	100%	100%
BestComm BVI	BestComm RF Electronics (Dongguan) Inc.	Manufacturing, sales and technical services	100%	100%

Note 1 : The Group established a wholly-owned subsidiary in 3Q19.

Note 2 : The Group established a wholly-owned subsidiary in 3Q18.

Note 3 : The Group established a wholly-owned subsidiary in 2Q18. The combined shareholding ratio is calculated both 99.9% owned by Holtek Investment and 0.1% owned by the Company.

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Note 4 : The combined shareholding ratio is calculated both 40% owned by Holtek Investment directly and 36.875% indirectly held by the associate company which Holtek Investment owns its 40% shareholdings.

Note 5 : The Group established a wholly-owned subsidiary in 4Q19.

C. List of subsidiaries which are not included in the consolidated financial statements: None.

(4) Foreign currency

A. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

B. Foreign operations

The assets and liabilities of foreign operations are translated to NTD using the exchange rates at the reporting date with the exception of shareholders' equity, which is translated at historical cost rates, and income and expenses, which are translated to NTD at the average rate for the period. Foreign currency differences are recognized in other comprehensive income.

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

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When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

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

The Group classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- A. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- B. It holds the asset primarily for the purpose of trading;
- C. It expects to realize the asset within twelve months after the reporting period; or
- D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

- A. It expects to settle the liability in its normal operating cycle;
- B. It holds the liability primarily for the purpose of trading;
- C. The liability is due to be settled within twelve months after the reporting period; or
- D. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

(6) Cash and cash equivalents

Cash comprises cash and cash in bank. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

(7) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a

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trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

A. Financial assets

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

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

(a) Financial assets measured at amortized cost

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

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

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

(b) Equity investments measured at fair value through other comprehensive income (FVOCI)

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

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

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

(c) Financial assets measured at fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets.

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

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss.

(d) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, guarantee deposits paid and other financial assets).

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

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable are always measured at an amount equal to lifetime ECL.

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

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

The Group considers a financial asset to be in default when the financial asset is more than 180 days past due and the debtor is unlikely to pay its credit obligations to the Group in full.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade which is considered to be BBB- or higher per Standard & Poor' s, Baa3 or higher per Moody' s or twA or higher per Taiwan Ratings.

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

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

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

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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(e) Derecognition of financial assets

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

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

B. Financial liabilities

(a) Classification of debt

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

(b) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(c) Derecognition of financial liabilities

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

On derecognition of a financial liability, the difference between the carrying amount of a

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financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(d) Offsetting of financial assets and liabilities

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

(8) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the weighted average method and includes expenditure and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(9) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. When the Group holds 20% to 50% of the voting rights of the investee company, it assumes that it has significant influence and adopts equity evaluation.

Under the equity method, investments in associates are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill, which is arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Group and associates are eliminated to the extent of the Group's interest in the associate.

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When the Group's share of losses exceeds its interest in associates, the carrying amount of that investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has a present legal or constructive obligation or has made payments on behalf of the investees.

(10) Property, plant and equipment

A. Recognition and measurement

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

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

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

B. Subsequent cost

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

C. Depreciation

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

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

(a) Buildings: 20 to 40 years

(b) Machinery and equipment: 3 to 5 years

(c) Other equipment: 2 to 8 years

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

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(11) Leases

Applicable from January 1, 2019

A. Identifying a lease

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

- (a) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- (b) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- (c) the Group has the right to direct the use of the asset only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

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

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B. As a lease

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

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

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

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

- (a) fixed payments;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable under a residual value guarantee; and
- (d) payments for purchase or termination options that are reasonably certain to be exercised.

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

- (a) there is a change in future lease payments arising from the change in an index or rate; or
- (b) there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- (c) there is a change of its assessment on whether it will exercise a purchase; or
- (d) there is a change of its assessment on whether it will extension or termination option; or
- (e) there is any lease modifications

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

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

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

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

C. As a lessor

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

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

Applicable by December 31, 2018

Payments made under operating lease are recognized in expenses on a straight-line basis over the term of the lease.

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(12) Intangible assets

A. Recognition and measurement

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

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

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

B. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

C. Amortization

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

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

(13) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (except for inventories and deferred income tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

(14) Revenue from contract with customers

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

A. Sale of goods

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

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

B. Financing components

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

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(15) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

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

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

C. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the

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employee and the obligation can be estimated reliably.

(16) Income tax

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

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

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

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

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

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

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

(17) Earnings per share

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The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares.

(18) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

5. Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty

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

Management continues to monitor the accounting estimations and assumptions. Management recognizes any changes in the accounting estimations during the period in which the estimates are revised and in any future periods affected.

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

Valuation of inventories

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgments and estimates to determine the net realizable value of inventory for obsolescence and unmarketable items at the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon. However, due to the rapid industrial transformation, the above estimation may have a significant change. Please refer to note 6(5) for further description of the valuation of inventories.

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The Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Group's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value.

The Group strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to Note 6(19) for assumptions used in measuring fair value.

6. Description of Significant Accounts

(1) Cash and cash equivalents

	December 31,	
	2019	2018
Cash and cash in bank	\$ 377,517	355,036
Time deposits	628,479	1,162,596
	<u>\$ 1,005,996</u>	<u>1,517,632</u>

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

	December 31,	
	2019	2018
Financial assets available-for-sale — beneficiary certificates	\$ 491,203	486,555

If there had been an increase or decrease in the fair value of securities of 1% on the reporting date, net income would have increased (or decreased) by \$3,930 and \$3,892 for the years ended December 31, 2019 and 2018, respectively. The analysis is performed on the same basis for both periods and assumes that all other variables remain constant.

(3) Equity investments at FVOCI- non-current

	December 31,	
	2019	2018
Equity securities – unlisted company		
Unitech Capital Inc. (Unitech)	\$ 68,627	60,848
Shieh Yong Investment Co., Ltd. (Shieh Yong)	206,714	161,110
Gingy Technology Corporation. (Gingy)	26,964	43,203
	\$ 302,305	265,161

The purpose that the Group invests in the abovementioned equity securities is for long-term strategies, but rather for trading purpose.

The Group sold part of equity instruments at fair value of \$2,972 through other comprehensive income in 4Q18. The Group realized a gain of \$1,355, which was already included in other comprehensive income, and the realized gain was transferred to retained earnings.

During the years ended December 31, 2019 and 2018, the dividends of \$0 and \$7,715, respectively, related to equity investments at fair value through other comprehensive income held on the years then ended, were recognized.

Please refer to note 6(19) for the information of the credit risk and market risk.

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(4) Notes and accounts receivable, net (including related parties)

	December 31,	
	2019	2018
Notes receivable	\$ 1,122	278
Accounts receivable	103,959	107,785
Accounts receivable from related parties	692,373	749,789
	797,454	857,852
Less: allowance for doubtful accounts	(7,393)	(10,459)
	\$ 790,061	847,393

The Group applies the simplified approach to provide for its loss allowance used for ECL, which permit the use of lifetime expected loss provision for notes and accounts receivable. The ECL on notes and accounts receivable by reference to past default experience of the customers and credit risk characteristics, as well as forward looking information, the loss allowance was determined as follows:

	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Loss allowance
Not past due	\$ 785,756	0.5%~1.5%	6,808
Past due 0~90days	11,698	5%	585
	\$ 797,454		7,393

	December 31, 2018		
	Gross carrying amount	Weighted-average loss rate	Loss allowance
Not past due	\$ 840,254	0.5%~1.5%	7,232
Past due 0~90days	3,215	5%	161
	\$ 843,469		7,393

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As of December 31, 2018, individual customers' accounts receivable amounted to \$14,383, which has been assessed as having default risk. Therefore, the Group provides the loss allowance for the customer amounted to \$3,066. As of December 31, 2019, the customer had made payment in accordance with the payment schedule, resulting in an expected credit loss of \$3,066 was reversed.

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

	For the year ended December 31,	
	2019	2018
Opening balance	\$ 10,459	7,393
Impairment losses recognized	-	3,066
Impairment losses reversed	(3,066)	-
Ending balance	<u>\$ 7,393</u>	<u>10,459</u>

(5) Inventories

	December 31,	
	2019	2018
Raw materials	\$ 200,819	179,234
Work in process	328,445	285,285
Finished goods and merchandise inventories	153,345	190,347
	<u>\$ 682,609</u>	<u>654,866</u>

The details of operating costs were as follows:

	For the year ended December 31,	
	2019	2018
Cost of goods sold	\$ 2,342,531	2,448,406
Cost of scrap materials	5,859	7,427
	<u>\$ 2,348,390</u>	<u>2,455,833</u>

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(6) Other financial assets-current

	December 31,	
	2019	2018
Time deposits (more than 3 months)	\$ 955,724	760,610
Restricted cash in banks	5,218	3,712
Others	25,904	19,853
	<u>\$ 986,846</u>	<u>784,175</u>

No impairment loss of other financial assets-current were occurred and recognized for the year ended December 31, 2019 and 2018.

Please refer to note 6 (19) for further information of credit risk.

(7) Investments accounted for using equity method

Investments in equity-accounted investees at the reporting dates consisted of the following:

	December 31,	
	2019	2018
Total amount of equities in associates	\$ 551,476	550,555
Less: unrealized gross profits on sales to associates	(83,786)	(101,540)
	<u>\$ 467,690</u>	<u>449,015</u>

There is no individually significant associate for the Group. The following table summarized the amount recognized by the Group at its share of those associates.

	For the year ended December 31,	
	2019	2018
Other comprehensive income attributable to the Group:		
Net income from continuing operation	\$ 73,241	97,105
Other comprehensive income	(14,257)	(521)
Total comprehensive income	<u>\$ 58,984</u>	<u>96,584</u>

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(8) Property, plant and equipment

Changes in the cost, and depreciation of the Group's property, plant and equipment were as follows:

	Land	Buildings	Machinery and equipment	Other equipment	Total
Cost:					
Balance as of January 1, 2019	\$ 26,676	515,972	382,617	87,215	1,012,480
Additions	-	1,648	17,154	13,071	31,873
Disposals	-	-	(67,731)	(2,008)	(69,739)
Effect of foreign exchange changes	-	(9,322)	(2,327)	(1,655)	(13,304)
Balance as of December 31, 2019	<u><u>\$ 26,676</u></u>	<u><u>508,298</u></u>	<u><u>329,713</u></u>	<u><u>96,623</u></u>	<u><u>961,310</u></u>
Balance as of January 1, 2018	\$ 26,676	517,847	355,953	84,913	985,389
Additions	-	3,319	39,941	4,632	47,892
Disposals	-	-	(10,811)	(1,374)	(12,185)
Effect of foreign exchange changes	-	(5,194)	(2,466)	(956)	(8,616)
Balance as of December 31, 2018	<u><u>\$ 26,676</u></u>	<u><u>515,972</u></u>	<u><u>382,617</u></u>	<u><u>87,215</u></u>	<u><u>1,012,480</u></u>
Accumulated depreciation:					
Balance as of January 1, 2019	\$ -	242,666	306,307	64,992	613,965
Depreciation for the period	-	24,218	28,941	11,334	64,493
Disposals	-	-	(66,680)	(1,883)	(68,563)
Effect of foreign exchange changes	-	(2,541)	(3,216)	(1,343)	(7,100)
Balance as of December 31, 2019	<u><u>\$ -</u></u>	<u><u>264,343</u></u>	<u><u>265,352</u></u>	<u><u>73,100</u></u>	<u><u>602,795</u></u>
Balance as of January 1, 2018	\$ -	221,227	293,422	56,011	570,660
Depreciation for the period	-	22,669	24,115	10,814	57,598
Disposals	-	-	(9,658)	(1,157)	(10,815)
Effect of foreign exchange changes	-	(1,230)	(1,572)	(676)	(3,478)
Balance as of December 31, 2018	<u><u>\$ -</u></u>	<u><u>242,666</u></u>	<u><u>306,307</u></u>	<u><u>64,992</u></u>	<u><u>613,965</u></u>
Book value:					
Balance as of December 31, 2019	<u><u>\$ 26,676</u></u>	<u><u>243,955</u></u>	<u><u>64,361</u></u>	<u><u>23,523</u></u>	<u><u>358,515</u></u>
Balance as of December 31, 2018	<u><u>\$ 26,676</u></u>	<u><u>273,306</u></u>	<u><u>76,310</u></u>	<u><u>22,223</u></u>	<u><u>398,515</u></u>
Balance as of January 1, 2018	<u><u>\$ 26,676</u></u>	<u><u>296,620</u></u>	<u><u>62,531</u></u>	<u><u>28,902</u></u>	<u><u>414,729</u></u>

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(9) Right-of-use assets

Changes in the cost, and depreciation of the Group's land and buildings were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost :			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	67,341	37,814	105,155
Additions	-	5,601	5,601
Disposals	-	(617)	(617)
Balance at December 31, 2019	<u><u>\$ 67,341</u></u>	<u><u>42,798</u></u>	<u><u>110,139</u></u>
Accumulated depreciation :			
Balance at January 1, 2019	\$ -	-	-
Depreciation for the year	3,061	15,259	18,320
Disposals	-	(254)	(254)
Balance at December 31, 2019	<u><u>\$ 3,061</u></u>	<u><u>15,005</u></u>	<u><u>18,066</u></u>
Carrying amount :			
Balance at December 31, 2019	<u><u>\$ 64,280</u></u>	<u><u>27,793</u></u>	<u><u>92,073</u></u>

The Group leases offices under an operating lease for the year ended December 31, 2018, please refer to note 6(11).

(10) Lease liabilities

The amount of lease liabilities was as follows:

	<u>December 31, 2019</u>
Current	<u><u>\$ 18,985</u></u>
Non-current	<u><u>\$ 73,586</u></u>

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The amounts recognized in profit or loss were as follows:

	For the year ended December 31, 2019
Interest on lease liabilities	<u><u>1,380</u></u>
Expenses relating to short-term leases	<u><u>7,492</u></u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u><u>695</u></u>

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

	For the year ended December 31, 2019
Total cash outflow for leases	<u><u>\$ 27,389</u></u>

Real estate leases

As of December 31, 2019, the Group leases land and buildings for its office space. The leases of land typically run for a period of 20 years, and of buildings for 2 to 5 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Some leases of office buildings contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. These leases are negotiated and monitored by local management, and accordingly, contain a wide range of different terms and conditions. The extension options held are exercisable only by the Group and not by the lessors. In which lease is not reasonably certain to use an optional extended lease term, payments associated with the optional period are not included within lease liabilities.

The rental amount of the land contract shall be adjusted by the fluctuation of the current land value in the local area and the amortized expenditures used in public infrastructures.

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(11) Operating lease

A. Based on the terms of lease contracts of office buildings, parking spaces, and staff dormitory, the future minimum lease payments are as follows:

	<u>December 31, 2018</u>
Less than one year	22,581
Between one and two years	18,640
More than two years	<u>8,649</u>
	<u><u>49,870</u></u>

B. The Group entered into a land lease agreement with the Hsinchu Science Park Administration. The term of the lease is from March 15, 2001 to December 31, 2020. When the lease term expires, a new agreement will be offered. The annual rental fee is around \$3,558 from February 2018. The rental payment is subject to the adjustment as the government revise the land value.

(12) Employee benefits

A. Defined benefit plans

The present value of the defined benefit obligation and the fair value adjustments of the plan assets for the Group were as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Present value of the defined benefit obligation	\$ 132,272	127,611
Fair value of plan assets	<u>(52,542)</u>	<u>(51,009)</u>
Net defined benefit liabilities	<u>\$ 79,730</u>	<u>76,602</u>

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

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(a) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor (hereinafter referred to as the Bureau of Labor Funds). Minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$52,542 as of December 31, 2019. For information on the utilization of the labor pension fund assets including the asset allocation and yield rate of the fund, please refer to the website of the Bureau of Labor Funds.

(b) Changes in the present value of the defined benefit obligation

The changes in the present value of the defined benefit obligation of the Group for the years ended December 31, 2019 and 2018 were as follows:

	For the year ended December 31,	
	2019	2018
Defined benefit obligation as of January 1	\$ 127,611	123,354
Benefits paid from plan assets	(3,581)	(4,234)
Current service costs and interest	1,275	1,480
Remeasurements of the net defined benefit liabilities		
— Actuarial loss arising from changes in financial assumptions	4,703	3,225
— Actuarial loss (gain) arising from experience adjustments	2,264	3,786
Defined benefit obligation as of December 31	<u>\$ 132,272</u>	<u>127,611</u>

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(c) Changes in the fair value of the defined benefit plan assets

The changes in the fair value of the defined benefit plan assets of the Group for the years ended December 31, 2019 and 2018 were as follows:

	For the year ended December 31,	
	2019	2018
Fair value of plan assets as of January 1	\$ 51,009	50,416
Benefits paid from plan assets	(3,581)	(4,234)
Interest income	524	622
Contributions made	2,798	2,812
Remeasurements of the net defined benefit liabilities		
— Return on plan assets (excluding current interest)	1,792	1,393
Fair value of plan assets as of December 31	\$ 52,542	51,009

(d) Expenses recognized in profit or loss

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

	For the year ended December 31,	
	2019	2018
Net interest on the net defined benefit liabilities	\$ 751	858
Cost of goods sold	\$ 48	57
Selling expenses	59	65
General and administrative expenses	115	152
Research and development expenses	529	584
	\$ 751	858

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- (e) Remeasurements of the net defined benefit liabilities recognized in other comprehensive income

The Group's remeasurements of the net defined benefit liabilities recognized as accumulated in other comprehensive income for the years ended December 31, 2019 and 2018 were as follows:

	For the year ended December 31,	
	2019	2018
Cumulative amount as of January 1	\$ 21,503	15,885
Recognized for the period	5,175	5,618
Cumulative amount as of December 31	<u>\$ 26,678</u>	<u>21,503</u>

- (f) Actuarial assumptions

The following are the Group's significant actuarial assumptions of the present value of the defined benefit obligation at the reporting date:

	December 31,	
	2019	2018
Discount rate	0.70%	1.00%
Future salary increase rate	2.00%	2.00%

The Group expects to make a contribution of \$2,870 to its defined benefit plans in the following year, beginning December 31, 2019.

The weighted-average duration of the defined benefit obligation is 11.8 years.

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(g) Sensitivity analysis

If there is a change in the actuarial assumptions as of the December 31, 2019 and 2018, the impact on the defined benefit obligation would be as follows:

<u>Actuarial assumptions</u>	Impact on the defined benefit obligation	
	<u>0.5% increase</u>	<u>0.5% decrease</u>
December 31, 2019		
Discount rate	\$ <u>(7,717)</u>	<u>8,351</u>
Future salary increase rate	\$ <u>7,552</u>	<u>(7,084)</u>
<u>Actuarial assumptions</u>	<u>1% increase</u>	<u>1% decrease</u>
December 31, 2018		
Discount rate	\$ <u>(15,127)</u>	<u>17,814</u>
Future salary increase rate	\$ <u>16,056</u>	<u>(14,039)</u>

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

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

B. Defined contribution plans

In accordance with the provisions of the Labor Pension Act, the Company and domestic subsidiaries should contribute 6% of its employees' monthly wages to their labor pension personal accounts of the Bureau of Labor Insurance, Ministry of Labor (hereinafter referred to as the Bureau of Labor Insurance). Under this defined contribution plan, the Group contributes a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations. The Group's pension costs under the defined contribution plan were \$22,952 and \$21,702 for the years ended December 31, 2019 and 2018, respectively.

Except for the above, the total pension costs of the Group's overseas branch and subsidiaries under their respective defined contribution plan were \$22,768 and \$22,704 for the years ended December 31, 2019 and 2018, which were recognized in accordance with their local regulations.

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(13) Income tax

A. Income tax expenses

The amount of income tax expenses for the years ended December 31, 2019 and 2018, was as follows:

	For the year ended December 31,	
	2019	2018
Current income tax expense		
Current period	\$ 125,927	142,444
Adjustment to prior years	(5,033)	(3,754)
	<u>120,894</u>	<u>138,690</u>
Deferred income tax expense		
Temporary differences	24,609	24,376
Adjustment in tax rate	-	12,157
	<u>24,609</u>	<u>36,533</u>
Income tax expenses	<u>\$ 145,503</u>	<u>175,223</u>

The amount of income tax expense (benefit) recognized in other comprehensive income for the years ended December 31, 2019 and 2018, was as follows:

	For the year ended December 31,	
	2019	2018
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	<u>\$ (1,035)</u>	<u>(1,124)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign affiliates	(5,074)	(3,870)
Exchange differences on translation of financial statements of invested associates accounted for using equity method	(2,781)	(120)
	<u>\$ (7,855)</u>	<u>(3,990)</u>

The reconciliation of income tax expenses and income before income tax was as follows:

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	For the year ended December 31,	
	2019	2018
Income before income tax	\$ 1,067,816	1,245,589
Income tax at the Company's domestic tax rate	213,563	249,118
Effect of tax rates in foreign jurisdiction	5,948	1,976
Permanent differences adjustment	(3,139)	(8,244)
Tax-exempt income	(67,733)	(77,572)
Estimated increase in investment tax credit	(3,015)	(2,498)
Adjustment in tax rate	-	12,157
Other	(121)	286
	\$ 145,503	175,223

B. The changes of deferred tax assets and liabilities were as follows:

Deferred tax assets

	January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2019
Unrealized loss from Inventory devaluation	\$ 10,200	(1,800)	-	12,000	-	-	12,000
Unrealized gross profit from sales to associates	23,501	(10,920)	-	34,421	(8,325)	-	42,746
Net defined benefit liabilities	12,399	(1,797)	(1,124)	15,320	409	(1,035)	15,946
Loss from exchange differences on translation of financial statements of foreign affiliates	3,403	-	(3,990)	7,393	-	(7,855)	15,248
Others	-	(572)	-	572	(684)	-	1,256
	\$ 49,503	(15,089)	(5,114)	69,706	(8,600)	(8,890)	87,196

Deferred tax liabilities

	January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2019
Foreign investment gains under the equity method	\$ (113,936)	51,556	-	(165,492)	33,319	-	(198,811)
Others	(1,052)	66	-	(1,118)	(110)	-	(1,008)
	\$ (114,988)	51,622	-	(166,610)	33,209	-	(199,819)

C. The tax authorities have assessed the Company's income tax returns through 2016.

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(14) Capital and other equity interest

A. Ordinary shares

As of December 31, 2019 and 2018, the authorized capital of the Company amounted to \$3,000,000, of which included the amount of \$200,000 reserved for employee stock options and the amount of \$500,000 for convertible bonds. The Company's issued and outstanding common stock, with par value of \$10 dollars per share, both amounted to \$2,261,682 as at December 31, 2019 and 2018.

B. Capital surplus

The balances of capital surplus as of December 31, 2019 and 2018, were as follows:

	December 31,	
	2019	2018
Capital surplus — premium	\$ 142,309	142,309

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be distributed as stock or cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received.

Pursuant to the R.O.C. Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the total sum of the capital surplus capitalized per annum shall not exceed 10% of the paid-in capital.

C. Retained earnings

According to the Company's Articles of Incorporation, if the Company has profit as a result of the accounting year, the Company shall first pay taxes, offset its losses in previous years and set aside a legal reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled the total capital of the Company, then set aside special capital reserve in accordance with relevant laws or regulations or as requested by business. Any rest balance, added to the accumulated undistributed earnings in previous years, shall be allocated by board of directors and shall be approved in shareholders' meeting.

The amount of dividends distributed to shareholders shall be no less than 50% of the distributable earnings of the year and no less than 50% of the shareholder's dividends shall be in the form of cash.

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(a) Legal reserve

Pursuant to the R.O.C. Company Act, the appropriation for legal reserve shall be made until the reserve equals the Company's paid-in capital. If the Company incurs no loss, the reserve may be distributed as cash or stock dividends for the portion in excess of 25% of the paid-in capital.

(b) Special reserve

By choosing to apply exemptions granted under IFRS 1 during the Company's first-time adoption of the IFRSs endorsed by the FSC, cumulative translation adjustments under shareholders' equity shall be reclassified as retained earnings at the adoption date. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs endorsed by the FSC amounted to \$18,008. And the Company's actuarial gains and losses be reclassified as retained earnings at the adoption date. The decrease in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs endorsed by the FSC amounted to \$13,410. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a net increase in retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC shall be reclassified as a special reserve amounted to \$4,598 during earnings distribution, and when the relevant asset is used, disposed of, or reclassified, this special reserve shall be reversed as distributable earnings proportionately.

The Company liquidated its subsidiary, Holtek Semiconductor (Shenzhen) Inc. in August, 2014. In accordance with the provisions of the above-mentioned regulations, the special reserve was reclassified to retained earnings amounted to \$1,956. The carrying amount of special reserve both amounted to \$2,642 as of December 31, 2019 and 2018.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special reserve resulting from the first-time adoption of the IFRSs endorsed by the FSC and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of the IFRSs endorsed by the FSC. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

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(c) Earnings distribution

The following are the appropriation of earnings in 2018 and 2017 which were approved in the shareholders' meeting held on May 29, 2019 and May 28, 2018, respectively:

	For the year ended December 31,			
	2018		2017	
	NT dollars per share	Total amount	NT dollars per share	Total amount
Cash dividends distributed to ordinary shareholders:	<u>\$</u>	<u>4.70 1,062,991</u>	<u>4.10</u>	<u>927,290</u>

(15) Earnings per share

The Company's calculation of basic earnings per share was as follows:

	For the year ended December 31,	
	2019	2018
Basic earnings per share:		
Net income for the period	<u>\$</u> <u>914,902</u>	<u>1,063,990</u>
Weighted-average number of ordinary shares outstanding during the year (in thousands)	<u>226,168</u>	<u>226,168</u>
Basic earnings per share (NT dollars)	<u>\$</u> <u>4.05</u>	<u>4.70</u>
Diluted earnings per share:		
Net income for the period	<u>\$</u> <u>914,902</u>	<u>1,063,990</u>
Weighted-average number of ordinary shares outstanding during the year (in thousands)	226,168	226,168
Remuneration to employees	<u>1,756</u>	<u>2,335</u>
Weighted-average number of ordinary shares outstanding during the year (diluted) (in thousands)	<u>227,924</u>	<u>228,503</u>
Diluted earnings per share (NT dollars)	<u>\$</u> <u>4.01</u>	<u>4.66</u>

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(16) Remuneration to employees and directors

According to the Company's Articles of Incorporation, when allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors and supervisors. However, the Company's accumulated losses shall have been covered.

The remunerations to employees amounted to \$109,968 and \$129,225, and the remunerations to directors amounted to \$12,019 and \$14,248 for the years ended December 31, 2019 and 2018, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the percentage which is stated under the Company's Article of Incorporation. These remunerations were expensed under cost of goods sold or expenses for the years ended December 31, 2019 and 2018. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholders' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. If remuneration to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing market price of the shares on the day preceding the board of directors' meeting.

Remuneration to employees and directors for 2018 in the amounts of \$129,225 and \$14,248, respectively. The aforementioned approved amounts are the same as the amounts charged against earnings of 2018. Remuneration to employees and directors for 2017 in the amounts of \$111,567 and \$12,286, respectively, which were paid in cash. The actual remunerations to directors amounted to \$12,176 for the years ended December 31, 2017, and the difference is recognized as accounts adjustments. The information is available on the Market Observation Post System website.

(17) Revenue from Contracts with Customers

A. Segmentation of revenue

Please refer to note 14 for the Segment Information.

B. Contract balance

Please refer to note 6(4) for the amount of accounts receivables and impairment loss.

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(18) Non-operating income and expenses

The details of other gains and losses were as follows:

	For the year ended December 31,	
	2019	2018
Foreign exchange losses	\$ (20,631)	(7,530)
Others	14,182	23,001
	\$ (6,449)	15,471

(19) Financial instruments

A. Credit risk

(a) Credit risk exposure

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

(b) Concentration of credit risk

The main sales of the Group are domestic and foreign companies with good reputation, in addition to the credit line according to the operation procedures, and continue to understand the credit status of customers. As of December 31, 2019 and 2018, customers (including related parties) whose notes and accounts receivables that accounted for more than 10% have amounted to \$328,045 and \$404,381, respectively. The Group have concentration of credit risk arising from sales transactions. The Group have estimated the recoverable amount and recognized allowance for doubtful accounts, the management expected that no significant impairment loss will occurred.

(c) Credit risk of accounts receivables and debt securities

Please refer to note 6(4) for the information of the credit risk exposure of note and account receivables.

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Other financial assets at amortized cost include time deposits (more than 3 months) and restricted cash in banks. Please refer to note 6(6) for the information of the details and loss allowance.

Please refer to note 4(7) for the information of the above financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk.

B. Liquidity risk

The following are the contractual maturities of financial liabilities:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1year</u>	<u>More than 1 years</u>
December 31, 2019				
Non-derivative financial liabilities				
Notes and accounts payable	\$ 482,608	482,608	482,608	-
Guarantee deposit received	8,542	8,542	-	8,542
Lease liabilities (including recorded in other current liabilities)	<u>92,571</u>	<u>102,269</u>	<u>20,139</u>	<u>82,130</u>
	<u>\$ 583,721</u>	<u>593,419</u>	<u>502,747</u>	<u>90,672</u>
December 31, 2018				
Non-derivative financial liabilities				
Notes and accounts payable	\$ 614,409	614,409	614,409	-
Guarantee deposit received	<u>8,706</u>	<u>8,706</u>	<u>-</u>	<u>8,706</u>
	<u>\$ 623,115</u>	<u>623,115</u>	<u>614,409</u>	<u>8,706</u>

The Group does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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C. Market risk

Currency risk

i. Exposure to currency risk

The Group's financial assets and liabilities exposed to exchange rate risk were as follows:

		December 31, 2019			December 31, 2018		
		Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>							
<u>Monetary items</u>							
USD	\$	10,444	29.93	312,577	18,380	30.665	563,619
RMB		58,098	4.2781	248,548	98,174	4.4459	436,473
<u>Non-monetary items</u>							
USD	\$	12,443	29.93	372,441	11,977	30.665	367,289
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD	\$	5,924	29.93	177,316	9,311	30.665	285,533
RMB		7,167	4.2781	30,660	13,886	4.4459	61,737

ii. Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, and accounts payable that are denominated in foreign currency. A fluctuation in the NTD/USD and NTD/RMB exchange rate on the reporting date, with other factors remaining constant, would have increased or decreased the net income amounted to \$2,825 and \$5,223 for the years ended December 31, 2019 and 2018, respectively.

iii. Foreign exchange gains (losses) on monetary items

Due to the variety of the functional currencies of the Group's entities, the Group's foreign exchange losses on monetary items amounted to \$20,631 and \$7,530 for the years ended December 31, 2019 and 2018, respectively.

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D. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. The Group's carrying amount and the fair value of financial assets and liabilities (including information for fair value hierarchy, but excluding financial instruments whose fair values approximate the carrying amounts and equity investments which cannot be estimated reliably in an active market) were as follows:

		December 31, 2019				
		Carrying amount	Fair value			
			Level1	Level2	Level3	Total
Financial assets measured at fair value through profit or loss	\$	491,203	491,203	-	-	491,203
Financial assets measured at fair value through other comprehensive income		302,305	-	-	302,305	302,305
Financial assets measured at amortized cost						
Cash and cash equivalents		1,005,996	-	-	-	-
Net notes and accounts receivable (including related parties)		790,061	-	-	-	-
Other financial assets – current		986,846	-	-	-	-
Guarantee deposits paid (recorded in other non-current assets)		8,920	-	-	-	-
		<u>\$ 3,585,331</u>	<u>491,203</u>	<u>-</u>	<u>302,305</u>	<u>793,508</u>
Financial liabilities measured at amortized cost						
Notes and accounts payable	\$	482,608	-	-	-	-
Guarantee deposit received		8,542	-	-	-	-
Lease liabilities (including recorded in other current liabilities)		92,571	-	-	-	-
		<u>\$ 583,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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	December 31, 2018				
	Carrying amount	Fair value			
		Level1	Level2	Level3	Total
Financial assets measured at fair value through profit or loss	\$ 486,555	486,555	-	-	486,555
Financial assets measured at fair value through other comprehensive income	265,161	-	-	265,161	265,161
Financial assets measured at amortized cost					
Cash and cash equivalents	1,517,632	-	-	-	-
Net notes and accounts receivable (including related parties)	847,393	-	-	-	-
Other financial assets – current	784,175	-	-	-	-
Guarantee deposits paid (recorded in other non-current assets)	11,208	-	-	-	-
	<u>\$ 3,912,124</u>	<u>486,555</u>	<u>-</u>	<u>265,161</u>	<u>751,716</u>
Financial liabilities measured at amortized cost					
Notes and accounts payable (including related parties)	\$ 614,409	-	-	-	-
Guarantee deposit received	8,706	-	-	-	-
	<u>\$ 623,115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(b) Valuation techniques for financial instruments that are measured at fair value

- The Group's valuation techniques and assumptions used for financial instruments of financial assets with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.
- The Group's financial assets at the equity investment without an active market were as follows:

Unquoted equity instruments : The Group invests companies. Asset value method is used to reflect corporate value by evaluating the aggregate value of individual assets and individual liabilities from the target of evaluation.

Unquoted equity instruments : For other investment the market price is established as the fair value if the quoted prices in active markets are available. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

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(c) There was no transfer of fair value level as of December 31, 2019 and 2018.

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

The Group's financial instruments that use Level 3 inputs to measure fair value include financial assets at FVOCI—equity investments.

The Group classified the equity investments without an active market as recurring level 3 fair values in the fair value hierarchy due to the use of significant unobservable inputs. The significant unobservable inputs of the equity investments without an active market are independent; therefore, there is no correlation between them.

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at FVOCI -equity investments without an active market	Market approach (Compared to the price-equity ratio of market practice among listed companies)	<ul style="list-style-type: none"> • Price per book value multiplier (2019.12.31 and 2018.12.31:1.77 and 2.00) • Discount for lack of marketability (2019.12.31 and 2018.12.31 : 25% and 20%) 	<ul style="list-style-type: none"> • The higher the price-equity ratio, the higher the fair value. • The higher the discount for lack of marketability, The lower the fair value.
Financial assets at FVOCI -equity investments without an active market	Net Asset Value Method	<ul style="list-style-type: none"> • Net Asset Value • Discount for lack of marketability (2019.12.31 and 2018.12.31:10% and 10%) 	<ul style="list-style-type: none"> • Not applicable • The higher the discount for lack of marketability, The lower the fair value.

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(e) Reconciliation for fair value measurements categorized within Level 3

	Financial assets measured at FVOCI — equity investments	
	For the year ended December 31,	
	2019	2018
Balance at beginning of the period	\$ 265,161	-
Adjustments on initial application of IFRS 9	-	326,736
Net gains or loss		
Net gains included in other comprehensive income	37,144	(58,603)
Disposals	-	(2,972)
Balance at end of the period	\$ 302,305	265,161

Net gains or loss that were included in unrealized gains and losses from financial assets at fair value through other comprehensive income for the years ended December 31, 2019 and 2018.

(20) Financial risk management

A. Overview

The Group is exposed to the following risks due to usage of financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures can be referred to note 6 (19).

B. Risk management framework

The Board of Directors has overall responsibility for developing and monitoring of the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and

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adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

C. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, and accounts receivables.

Please refer to Note 6 (19) for the credit risk analyses of cash and cash equivalents, and accounts receivables. As of December 31, 2019 and 2018, no guarantees were outstanding.

D. Liquidity risk

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

Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. The Group also monitors the level of expected cash flows on long-term and short-term trades. Group treasury invests surplus cash in time deposits with appropriate maturities or other short-term investments to ensure sufficient liquidity and meet its liabilities when due. As of December 31, 2019, the Group's unused credit line were amounted to \$150,750, which ensures compliance with the terms of loan agreements and cope with its operations and avoid liquidity risk.

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E. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises currency risk, interest risk, and other price risk (such as risk related to equity instruments). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The group controls the risks arising from fluctuation of market rate and price change of beneficiary certificates, all significant transactions are approved by the Board of Directors. The relevant financial operations are monitored by internal audit department.

The management regulations are as follows:

- (1) The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the US Dollar (USD), and the Chinese Yuan (RMB).

When a short-term imbalance of financial assets and liabilities in foreign currency occurred, the Group can maintain the net exposure risk at an acceptable level by purchasing or selling foreign currency at current rate.

- (2) Every significant investment of the Group's portfolio is managed individually, and all the decisions on transactions are approved by the Board of Directors.

(21) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize owner value.

The strategy of capital structure management is based on the Group's industry scope, the future cost of industry, and products development blueprint. The Board of Directors settled the strategy to determine an applicable market share, and decide the operating capitals to make an overall plan for the various assets scales that the Group can develop continuously. Finally, the Board of Directors will estimate possible marginal utility, operating profit margin, and cash flows based on the competitiveness of the Group's products, and will consider different risk factors like business cycle fluctuation, product life cycle, to determine the appropriate capital structure of the Group.

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The Board of Directors monitors the capital structure regularly, and considers the potential risk the Group may be involved in various capital structures.

There were no changes in the Group's approach to capital management during the year ended December 31, 2019.

The Group's debt-to-adjusted-capital ratio at the reporting date was as follows:

	December 31,	
	2019	2018
Total liabilities	<u><u>\$ 1,294,245</u></u>	<u><u>1,331,401</u></u>
Total equity	<u><u>\$ 4,079,423</u></u>	<u><u>4,224,099</u></u>
Debt-to-adjusted-capital ratio	<u><u>31.73%</u></u>	<u><u>31.52%</u></u>

(22) financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the year ended December 31, 2019 and 2018, were as follows:

A. Acquisition of right-of-use assets at leases, please refer to notes 6(10).

B. Reconciliation of liabilities arising from financing activities were as follows:

	<u>Lease liabilities</u>
Opening balance, January 1, 2019	\$ -
Adjustments on initial application	105,155
Changes in cash flows from operating activities	
Interest paid	(1,380)
Changes in cash flows from financing activities	
Payments of lease liabilities	(17,822)
Changes in not affecting cash flows	
Additions of lease liabilities	5,601
Lease modification	(363)
Interest expense	<u>1,380</u>
Ending Balance, December 31, 2019	<u><u>\$ 92,571</u></u>

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7. Related-party Transactions

(1) Names and relationship with related parties

The followings are the related parties which had transaction with the Group during the periods covered in the consolidated financial statements.

<u>Name of related parties</u>	<u>Relationship with the Group</u>
CROWN RICH	An associate of the Group
FINE CHIP	An associate of the Group
FORIC	An associate of the Group
JXY	An associate of the Group
NEW WAVE	An associate of the Group
NEWTEK	An associate of the Group
QUANDING	An associate of the Group
SANTEK	An associate of the Group
TRUETEK	An associate of the Group
BESTWAY	An associate of the Group
SIGNAL	An associate of the Group
TECH WAVE	An associate of the Group
ETEK	An associate of the Group
GOSAN(Note)	An associate of the Group
EST	An associate of the Group

Note : The Group sold all of the shares of GOSAN in May, 2019.

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(2) Significant related-party transactions

A. Sales

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

	For the year ended December 31,	
	2019	2018
SIGNAL	\$ 589,840	635,592
CROWN RICH	523,944	544,069
Others	2,255,163	2,409,950
	\$ 3,368,947	3,589,611

The Group will determine selling price by product type specification, and offer different discount based on the quantity. The credit terms for sales transactions for related parties ranged from 60 to 120 days. While the credit terms for routine sales transactions, which are usually decided upon the experiences and the result form credit evaluation, can be varied from advance payment, T/T on demand, or 30 to 60 days on open account.

As for the years ended December 31, 2019 and 2018, the Group recognized unrealized gross profits of sales to associates amounting to \$83,786 and \$101,540 respectively.

The receivables from related parties were as follows:

	December 31,	
	2019	2018
CROWN RICH	\$ 129,353	107,074
SIGNAL	118,752	123,653
TRUETEK	79,940	86,732
Others	364,328	432,330
	\$ 692,373	749,789

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B. Purchases and other transactions

- (a) The amounts of significant purchases by the Group from related parties were as follows:

	For the year ended December 31,	
	2019	2018
Associates	\$ 358	-

The terms and prices of purchase transactions with related parties were not significantly different from those offered by other vendors.

- (b) The Group has paid to the related parties for consumables, miscellaneous purchase, and sales service of integrated circuit as follows:

	For the year ended December 31,	
	2019	2018
Associates	\$ -	13

- (c) The group's revenue from related parties about the human support service charge and disbursement have amounting to \$8,555 and \$12,933 for the year ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the receivables classified under abovementioned other financial assets—current have amounting to \$14,869 and \$14,074, respectively.

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	For the year ended December 31,	
	2019	2018
Short-term employee benefits	\$ 31,950	34,429
Post-employment benefits	432	432
	\$ 32,382	34,861

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8. Pledged Assets

Assets	Purpose of Pledged	December 31,	
		2019	2018
Time deposits (recorded in other financial assets — current)	Guarantee deposits of customs duty	\$ <u>5,218</u>	<u>3,712</u>

9. Significant Commitments and Contingencies

The Group has signed the contract of technical authorization with ARM Ltd. When the Group sells products which apply the promised technique, it has to pay the royalty with certain amount according to the contract.

10. Losses Due to Major Disasters: None.

11. Significant Subsequent Events: None.

12. Other

The following is the summary statement of current-period employee benefits, depreciation, and amortization expenses by function:

By item	For the year ended December 31, 2019			For the year ended December 31, 2018		
By function	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefits						
Salaries	28,973	725,618	754,591	30,468	762,573	793,041
Labor and health insurance	2,345	43,415	45,760	2,227	39,552	41,779
Pensions	1,495	44,976	46,471	1,595	43,669	45,264
Others	1,460	20,672	22,132	1,430	20,265	21,695
Depreciation	3,227	79,586	82,813	2,753	54,845	57,598
Amortization	16	73,169	73,185	-	55,025	55,025

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13. Other disclosures

(1) Information on significant transactions

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest percentage of ownership (%) during the year	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value		
The Company	FSITC Taiwan Money Market	-	Financial assets measured at fair value through profit or loss — current	10,966	168,477	-	168,477	-	
The Company	UPAMC James Bond Money Market Fund	-	Financial assets measured at fair value through profit or loss — current	15,616	262,000	-	262,000	-	
The Company	Yuanta De-Bao Money Market Fund	-	Financial assets measured at fair value through profit or loss — current	5,034	60,726	-	60,726	-	
Holtek Semiconductor Holding (BVI) Ltd.	Unitech Capital Inc.	-	Equity-investments measured at fair value through other comprehensive income-non current	2,500	68,627	5.00%	68,627	5.00%	
Holtek Investment Co., Ltd	Shieh Yong Investment Co., Ltd.	-	Equity-investments measured at fair value through other comprehensive income-non current	23,124	206,714	3.03%	206,714	3.03%	
Holtek Investment Co., Ltd	Gingy Technology Co.	-	Equity-investments measured at fair value through other comprehensive income-non current	3,330	26,964	12.33%	26,964	16.38%	

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

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Holtek (Suzhou)	Subsidiary of the Company	Sales	(206,378)	(5)%	Open account 120 days	No significant difference	No significant difference	119,138	14%	Note
Holtek (Suzhou)	The Company	Parent company of Holtek (Suzhou)	Purchases	206,378	100%	Open account 120 days	No significant difference	No significant difference	(119,138)	(87)%	Note
The Company	Holtek BVI	Subsidiary of the Company	Sales	(405,302)	(10)%	Open account 120 days	No significant difference	No significant difference	-	- %	Note
Holtek BVI	The Company	Parent company of Holtek BVI	Purchases	405,302	100%	Open account 120 days	No significant difference	No significant difference	-	- %	Note
The Company	Holtek (Xiamen)	Subsidiary of the Company	Sales	(180,497)	(4)%	Open account 120 days	No significant difference	No significant difference	107,824	13%	Note
Holtek (Xiamen)	The Company	Parent company of Holtek (Xiamen)	Purchases	180,497	78%	Open account 120 days	No significant difference	No significant difference	(107,824)	(86)%	Note
The Company	Santek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(103,903)	(3)%	Open account 60 days	No significant difference	No significant difference	6,402	1%	
Santek	The Company	Investee that evaluate Santek under equity method	Purchases	103,903	55%	Open account 60 days	No significant difference	No significant difference	(6,402)	(17)%	
The Company	Signal	Investee of the Company's subsidiary evaluated under the equity method	Sales	(339,689)	(8)%	Open account 60 days	No significant difference	No significant difference	38,938	5%	
Signal	The Company	Investee that evaluate Signal under equity method	Purchases	339,689	41%	Open account 60 days	No significant difference	No significant difference	(38,938)	(29)%	
The Company	Newtek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(185,673)	(5)%	Open account 60 days	No significant difference	No significant difference	5,938	1%	
Newtek	The Company	Investee that evaluate Newtek under equity method	Purchases	185,673	53%	Open account 60 days	No significant difference	No significant difference	(5,938)	(12)%	
The Company	EST	Investee of the Company's subsidiary evaluated under the equity method	Sales	(153,496)	(4)%	Open account 60 days	No significant difference	No significant difference	31,846	4%	
EST	The Company	Investee that evaluate EST under equity method	Purchases	153,496	8%	Open account 60 days	No significant difference	No significant difference	(31,846)	(18)%	

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Best Solution Technology Inc.	Subsidiary of the Company	Sales	(306,727)	(8)%	Open account 60 days	No significant difference	No significant difference	9,529	1%	Note
Best Solution Technology Inc.	The Company	Parent company of Best Solution Technology Inc.	Purchases	306,727	100%	Open account 60 days	No significant difference	No significant difference	(9,529)	(100)%	Note
The Company	New Wave	Investee of the Company's subsidiary evaluated under the equity method	Sales	(129,484)	(3)%	Open account 60 days	No significant difference	No significant difference	-	- %	
New Wave	The Company	Investee that evaluate New Wave under equity method	Purchases	129,484	32%	Open account 60 days	No significant difference	No significant difference	-	- %	
The Company	Truetek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(157,391)	(4)%	Open account 60 days	No significant difference	No significant difference	16,352	2%	
Truetek	The Company	Investee that evaluate Truetek under equity method	Purchases	157,391	42%	Open account 60 days	No significant difference	No significant difference	(16,352)	(20)%	
The Company	Crown Rich	Investee of the Company's subsidiary evaluated under the equity method	Sales	(108,147)	(3)%	Open account 60 days	No significant difference	No significant difference	2,890	- %	
Crown Rich	The Company	Investee that evaluate Crown Rich under equity method	Purchases	108,147	17%	Open account 60 days	No significant difference	No significant difference	(2,890)	(2)%	
The Company	Holtek (China)	Subsidiary of the Company	Sales	(586,707)	(14)%	Open account 120 days	No significant difference	No significant difference	408,893	49%	Note
Holtek (China)	The Company	Parent company of Holtek (China)	Purchases	586,707	84%	Open account 120 days	No significant difference	No significant difference	(408,893)	(91)%	Note

Note : The amounts of the transaction and the ending balance had been offset in the consolidated financial statements.

viii. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Ending balance	Turnover days	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
The Company	Holtek (China)	Subsidiary	408,893 Note2	2.87	-	Collection on demand	107,354 (Note1)	-
The Company	Holtek (Suzhou)	Subsidiary	119,138 Note2	3.46	-	Collection on demand	(Note1)	-
The Company	Holtek (Xiamen)	Subsidiary	107,824 Note2	3.35	-	Collection on demand	(Note1)	-

Note1 : The amount is collected by January 17, 2020.

Note2 : The amounts of the transaction and the ending balance had been offset in the consolidated financial statements.

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

ix. Trading in derivative instruments: None.

x. Business relationships and significant intercompany transactions:

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	HOLTEK (China)	Parent company to subsidiary	Sales	586,707	Open account 120 days	12.80%
0	The Company	HOLTEK (China)	Parent company to subsidiary	Accounts receivable	408,893	Open account 120 days	7.61%
0	The Company	HOLTEK BVI	Parent company to subsidiary	Sales	405,302	Open account 120 days	8.84%
0	The Company	Best Solution	Parent company to subsidiary	Sales	306,727	Open account 60 days	6.69%
0	The Company	Holtek (Suzhou)	Parent company to subsidiary	Sales	206,378	Open account 120 days	4.50%
0	The Company	Holtek (Suzhou)	Parent company to subsidiary	Accounts receivable	119,138	Open account 120 days	2.22%
0	The Company	HOLTEK (Xiamen)	Parent company to subsidiary	Sales	180,497	Open account 120 days	3.94%
0	The Company	HOLTEK (Xiamen)	Parent company to subsidiary	Accounts receivable	107,824	Open account 120 days	2.01%
0	The Company	Best Health	Parent company to subsidiary	Sales	63,366	Open account 60 days	1.38%

Note : The transactions with amount that account for more than 0.5% of the comprehensive earnings or net assets are disclosed.

(2) Information on investees:

The following is the information on investees for the year 2019 (excluding information on investees in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2019			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value				
The Company	Holtek Semiconductor Holding (BVI) Ltd.	B.V.I.	Overseas investment activities	475,831	475,831	15,253	100.00%	608,165	100.00%	94,549	94,549 Note2	The Company's Subsidiary

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2019			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value				
The Company	Kingtek Semiconductor Holding (BVI) Ltd.	B.V.I.	Overseas investment activities	69,542	69,542	2,000	100.00%	127,433	100.00%	11,287	11,287 Note2	The Company's Subsidiary
The Company	Sigmos Holdings Ltd.	B.V.I.	Overseas investment activities	6,898	6,898	200	100.00%	23,030	100.00%	798	798 Note2	The Company's Subsidiary
Sigmos Holdings Ltd.	Holtek Semiconductor (USA) Inc.	California, USA	Sales of integrated circuits and technical services	6,898	6,898	2,000	100.00%	23,030	100.00%	798	Note1、2	The Company's second-tier subsidiary
The Company	MCU Holdings Ltd.	B.V.I.	Overseas investment activities	16,333	16,333	500	100.00%	710,248	100.00%	73,761	73,761 Note2	The Company's Subsidiary
MCU Holdings Ltd.	ForIC Electronics Holding Ltd.	B.V.I.	Overseas investment activities	9,733	9,733	300	40.00%	20,877	40.00%	422	Note1	The Subsidiary's investee company by equity method
ForIC Electronics Holding Ltd.	E-Micro Technology Holding Ltd.(BVI)	B.V.I.	Overseas investment activities	9,473	9,473	300	100.00%	8,578	100.00%	437	Note1	The Subsidiary's investee company by equity method invest subsidiary
ForIC Electronics Holding Ltd.	ForIC Electronics HK Limited	Hong Kong	Sales of integrated circuits and technical services	866	-	200	100.00%	1,454	100.00%	615	Note1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Truetek Technology Ltd.	B.V.I.	Overseas investment activities	16,306	16,306	920	40.00%	51,962	40.00%	24,314	Note1	The Subsidiary's investee company by equity method
Truetek Technology Ltd.	Truetek Technology HK Limited	Hong Kong	Sales of integrated circuits and technical services	8,662	-	2,000	100.00%	11,837	100.00%	3,262	Note1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Quanding Technology Holding Ltd.	B.V.I.	Overseas investment activities	1,868	1,868	60	40.00%	23,834	40.00%	15,003	Note1	The Subsidiary's investee company by equity method
Quanding Technology Holding Ltd.	Quanding Technology HK Limited.	Hong Kong	Sales of integrated circuits and technical services	2,137	-	500	100.00%	2,049	100.00%	(90)	Note1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Santek Holdings Ltd.	B.V.I.	Overseas investment activities	3,758	3,758	180	40.00%	24,392	40.00%	23,555	Note1	The Subsidiary's investee company by equity method
Santek Holdings Ltd.	Santek Electronics HK Limited	Hong Kong	Sales of integrated circuits and technical services	8,662	-	2,000	100.00%	8,702	100.00%	93	Note1	The Subsidiary's investee company by equity method invest subsidiary

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2019			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value				
MCU Holdings Ltd.	Bestway Electronic Inc.	B.V.I.	Overseas investment activities	3,470	3,470	800	40.00%	22,286	40.00%	1,130	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	New Wave Electronics Holding Ltd.	B.V.I.	Overseas investment activities	24,784	24,784	800	40.00%	67,517	40.00%	26,053	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Newtek Electronics Ltd.	B.V.I.	Overseas investment activities	8,105	8,105	1,501	40.61%	62,314	40.61%	16,769	Note1	The Subsidiary's investee company by equity method
Newtek Electronics Ltd.	Newtek Electronics HK Limited	Hong Kong	Sales of integrated circuits and technical services	8,662	-	2,000	100.00%	12,895	100.00%	43,673	Note1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Crown Rich Technology Holding Ltd.	B.V.I.	Overseas investment activities	2,641	2,641	80	40.00%	65,018	40.00%	36,973	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Fine Chip Electronics Inc.	B.V.I.	Overseas investment activities	7,039	7,039	1	40.00%	1,850	40.00%	(1,107)	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Anchip Technology Corporation	B.V.I.	Overseas investment activities	2,937	2,937	1	60.00%	4,691	60.00%	3,891	Note1,2	The Company's second-tier subsidiary
MCU Holdings Ltd.	Tech Wave Ltd.	Hong Kong	Sales of integrated circuits and technical services	9,907	9,907	2,400	40.00%	18,254	40.00%	2,930	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	ETEK technology company Ltd.	Hong Kong	Sales of integrated circuits and technical services	5,427	5,427	1,275	33.33%	7,884	33.33%	11,987	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	JXY Electronics Corporation	B.V.I.	Overseas investment activities	6,404	3,664	1	40.00%	6,253	40.00%	1,383	Note1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Best Health Electronics Corp.	B.V.I.	Overseas investment activities	20,965	20,965	5	80.00%	24,555	80.00%	5,195	Note1,2	The Company's second-tier subsidiary
Best Health Electronics Corp.	Best Health Electronics HK Limited	Hong Kong	Sales of integrated circuits and technical services	1,299	-	300	100.00%	3,069	100.00%	1,796	Note 1、2	The Company's second-tier subsidiary
MCU Holdings Ltd.	Best Power Electronics Corporation	B.V.I.	Overseas investment activities	8,844	8,844	2	100.00%	8,746	100.00%	149	Note 1、2	The Company's second-tier subsidiary
The Company	Holtek Semiconductor (India) Private Limited	INDIA	Sales of integrated circuits and technical services	3	3	6	0.10%	1	0.10%	(121)	- Note 2	The Company's second-tier subsidiary

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2019			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value				
The Company	Holtek Investment Co., Ltd.	Hsinchu City	Domestic investment activities	429,826	429,826	42,983	100.00%	507,733	100.00%	7,625	7,625 Note2	The Company's Subsidiary
Holtek Investment Co., Ltd.	Signal Electronic Co., Ltd.	Taipei City	Sales of integrated circuits and technical services	95,941	95,941	7,880	40.00%	113,968	40.00%	20,934	Note1	The Subsidiary's investee company by equity method
Signal Electronic Co. Ltd.	A-ONE Wireless Technology Corp.	B.V.I.	Overseas investment activities	59,204	59,204	2,000	100.00%	69,413	100.00%	4,985	Note1	The Subsidiary's investee company by equity method invest subsidiary
Signal Electronic Co. Ltd.	Innotek Electronics Inc.	B.V.I.	Overseas investment activities	43,810	43,810	800	100.00%	46,057	100.00%	6,388	Note1	The Subsidiary's investee company by equity method invest subsidiary
Signal Electronic Co. Ltd.	Best Solution Technology Inc.	Taipei City	Sales of integrated circuits and technical services	7,375	7,375	738	36.88%	14,254	36.88%	10,644	Note1	The Company's second-tier subsidiary
Holtek Investment Co., Ltd.	EST Technology Integration Corp.	New Taipei City	Sales of integrated circuits and technical services	37,500	37,500	5,865	22.39%	70,768	22.39%	14,740	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	Gosan Technology Co., Ltd.	New Taipei City	Sales of integrated circuits and technical services	-	2,350	-	-%	-	- %	1,158	Note1,3	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	Best Solution Technology Inc.	Taipei City	Sales of integrated circuits and technical services	8,000	8,000	800	40.00%	15,462	40.00%	10,644	Note1,2	The Company's second-tier subsidiary
Best Solution Technology Inc.	Best Solution Electronics Inc.	B.V.I.	Overseas investment activities	6,140	6,140	200	100.00%	26,748	100.00%	3,625	Note1,2	The Company's third-tier subsidiary
Holtek Investment Co., Ltd.	TANGENT Microelectromechanics Corp.	Hsinchu City	Electronic component manufacturing, electronic materials wholesale and retail, telecommunication equipment wholesale and retail, intellectual property rights, information service and international trade	10,002	10,002	380	20.00%	-	20.00%	156	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	BestComm RF Electronics Inc.	Hsinchu City	Sales of integrated circuits and technical services	40,000	40,000	4,000	100.00%	13,787	100.00%	(7,824)	Note1,2	The Company's second-tier subsidiary
BestComm RF Electronics Inc.	BestComm RF Electronics (BVI) Inc.	B.V.I.	Overseas investment activities	14,054	14,054	30	100.00%	6,189	100.00%	(4,548)	Note1,2	The Company's third-tier subsidiary

Holtek Semiconductor and Subsidiaries

Notes to Consolidated Financial Statements

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2019			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value				
Holtek Investment Co., Ltd.	Best Modules Corp.	Hsinchu City	Electronic component manufacturing, electronic materials wholesale and retail, retail trade not in stores or stalls, and international trade	10,000	10,000	1,000	100.00%	9,020	100.00%	(875)	Note1,2	The Company's second-tier subsidiary
Holtek Investment Co., Ltd.	Holtek Semiconductor (India) Private Limited	INDIA	Sales of integrated circuits and technical services	2,945	2,945	6,479	99.90%	1,482	99.90%	(121)	Note1,2	The Company's second-tier subsidiary

Note1 : The share of profits/losses of the investee company is already included in the share of profits/losses of the investor company.

Note2 : The amounts of the transaction and the ending balance had been offset in the consolidated financial statements.

Note3 : The Group sold all of the shares of GOSAN in May, 2019.

(3) Information on investment in mainland China:

i. The names of investees in Mainland China, the main businesses and products, and other information:

Name of investee	Main businesses and products	Total amount of capital surplus	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Highest percentage of ownership during the year	Gains (losses) on investments	Book value	Accumulated remittance of earnings in current period
					Out-flow	Inflow							
Holtek Semiconductor (Xiamen) Inc	Sales of integrated circuits and technical services	113,551	(Note1)	101,027	-	-	101,027	10,539	100%	100%	10,539 (Note5)	119,164	-
Holtek Semiconductor (China) Inc.	Sales of integrated circuits and technical services	292,423	(Note1)	272,221	-	-	272,221	84,616	100%	100%	84,616 (Note 5)	396,894	-
Bestway Electronics (Shenzhen) Inc.	Sales of integrated circuits and technical services	6,769	(Note1)	3,383	-	-	3,383	(3,195)	40%	40%	(1,278)	14,448	-
Santek Electronics (Xiamen) Ltd.	Sales of integrated circuits and technical services	6,398	(Note1)	2,506	-	-	2,506	(5,947)	40%	40%	(2,379) (Note 5)	12,981	-
New Wave Electronics (Shenzhen) Ltd.	Sales of integrated circuits and technical services	9,287	(Note1)	3,928	-	-	3,928	21,577	40%	40%	8,631 (Note 5)	42,334	-
Forl Electronics (Beijing) Ltd.	Sales of integrated circuits and technical services	19,361	(Note1)	3,601	-	-	3,601	(6,479)	40%	40%	(2,591)	9,041	-
E-Micro Technology (Qingdao) Ltd.	Sales of integrated circuits and technical services	6,315	(Note1)	2,634	-	-	2,634	(83)	40%	40%	(33)	6,295	-
Newtek Electronics (Shenzhen) Ltd	Sales of integrated circuits and technical services	6,699	(Note1)	2,647	-	-	2,647	3,537	40.61%	40.61%	1,436 (Note 5)	31,685	-

Holtek Semiconductor and Subsidiaries

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Name of investee	Main businesses and products	Total amount of capital surplus	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Highest percentage of ownership during the year	Gains (losses) on investments	Book value	Accumulated remittance of earnings in current period
					Out-flow	Inflow							
Truetek Technology (Shanghai) Ltd.	Sales of integrated circuits and technical services	30,293	(Note1)	3,911	-	-	3,911	(3,396)	40%	40%	(1,358)	43,287	-
Crown Rich Technology (Shenzhen) Ltd.	Sales of integrated circuits and technical services	10,443	(Note1)	1,964	-	-	1,964	14,163	40%	40%	5,665 (Note 5)	70,189	-
Quanding Technology (Suzhou) Ltd.	Sales of integrated circuits and technical services	3,736	(Note1)	1,600	-	-	1,600	4,980	40%	40%	1,992	23,064	-
Holtek Semiconductor (Suzhou) Inc.	Sales of integrated circuits and technical services	69,712	(Note1)	69,712	-	-	69,712	11,288	100%	100%	11,288 (Note 5)	127,394	-
Fine Chip Electronics (Shanghai) Inc.	Sales of integrated circuits and technical services	7,541	(Note1)	-	-	-	-	(350)	40%	40%	(140)	2,359	-
Anchip Technology (Dongguan) Corporation	Sales of integrated circuits and technical services	1,521	(Note1)	-	-	-	-	980	60%	60%	588	1,615	-
JXY Electronics (Shenzhen) Corporation	Sales of integrated circuits and technical services	6,843	(Note1)	-	-	-	-	1,427	40%	40%	571	5,588	-
Best Health Electronics (Dongguan) Corporation	Sales of integrated circuits and technical services	23,057	(Note1)	-	-	-	-	(5,118)	80%	80%	(4,094)	9,644	-
BestComm RF Electronics (Dongguan) Inc.	Sales of integrated circuits and technical services	9,214	(Note1)	-	-	-	-	(5,246)	100%	100%	(5,246) (Note 5)	1,055	-
Best Solution Technology (Dongguan) Inc.	Sales of integrated circuits and technical services	4,284	(Note1)	-	-	-	-	(1,823)	54.75%	54.75%	(998) (Note 5)	2,462	-

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

ii. Limit of investments in Mainland China:

Name of company	Accumulated Investments in Mainland China as of December 31, 2019 (Note2)	Investment Amounts Authorized by Investment Commission, MOEA (Note3)	Maximum Limit of Investment (Note4)
The Company	471,089 (US\$15,111 in thousands)	524,934 (US\$17,539 in thousands)	2,431,599
BestComm RF	9,392 (US\$314 in thousands)	9,383 (US\$314 in thousands)	8,272

Note1 : Investment in companies in Mainland China through the existing companies in the third regions.

Note2 : Accumulated investments in Mainland China are calculated in NTD using exchange rate on the remitting date.

Note3 : Investment amounts authorized by Investment Commission, MOEA are calculated in NTD using exchange rate on the reporting date. Including accumulated remittances from Taiwan for \$450,555 (US\$15,054 in thousands); and from the third regions for \$74,379 (US\$2,485 in thousands)

Note4 : According to "Principle of investment or Technical Cooperation in Mainland China", the Company's accumulated investments in Mainland China do not exceed the maximum limit of investment. Net value \$4,052,665 x 60% = \$2,431,599; and BestComm RF net value \$13,787 x 60% = \$8,272.

Note5 : The financial statements of the Company were audited by the auditors.

iii. Significant transactions

The significant intercompany transactions with the subsidiaries in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in the Company please refer to (1) *Information on significant transactions x. Business relationships and significant intercompany transactions* for further information.

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

14. Segment Information

(1) General and segment information

The Group operates predominantly in single industry segment which includes the research and development, manufacture, and sales of integrated circuits. The segment financial information is consistent with the consolidated financial statements. For sales to unconsolidated entities and income before income tax, please see the consolidated statements of comprehensive income. For assets, please see the consolidated balance sheets.

(2) Products and services information

Revenues of the Group from external customers:

	For the year ended December 31,			
	2019		2018	
	Amount	% of net sales	Amount	% of net sales
Sales of integrated circuits	\$ 4,567,256	100	4,853,674	100
Design income	16,849	-	9,133	-
	<u>\$ 4,584,105</u>	<u>100</u>	<u>4,862,807</u>	<u>100</u>

(3) Geographic information

Segment revenues are classified based on the geographical location of customers, and segment assets are classified based on the geographical location of the assets.

	For the year ended December 31,			
	2019		2018	
	Amount	% of net sales	Amount	% of net sales
Revenues from external customers:				
China	\$ 3,474,535	76	3,716,948	76
Taiwan	449,626	10	484,264	10
Other countries	659,944	14	661,595	14
	<u>\$ 4,584,105</u>	<u>100</u>	<u>4,862,807</u>	<u>100</u>

Holtek Semiconductor and Subsidiaries
Notes to Consolidated Financial Statements

	December 31,			
	2019		2018	
	Amount	% of total assets	Amount	% of total assets
Non-current assets				
Taiwan	\$ 264,473	5	182,991	3
China	265,659	5	265,648	5
Other countries	3,055	-	868	-
	<u>\$ 533,187</u>	<u>10</u>	<u>449,507</u>	<u>8</u>

(4) Major customer information

Sales to individual customers for greater than 10% of total sales were as follows:

	For the year ended December 31,			
	2019		2018	
	Amount	% of net sales	Amount	% of net sales
SIGNAL	\$ 589,840	13	635,592	13
CROWN RICH	523,944	11	544,069	11
	<u>\$ 1,113,784</u>	<u>24</u>	<u>1,179,661</u>	<u>24</u>

Appendix 2

Independent Auditors' Report

To the Board of Directors of Holtek Semiconductor Inc.:

Opinion

We have audited the financial statements of Holtek Semiconductor Inc. (“the Company”), which comprise the balance sheets as of December 31, 2019 and 2018, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the years ended December 31, 2019 and 2018, and notes to the parent company only financial statements including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Emphasis of Matter

As stated in Note 3(1), the Company initially adopt the IFRS 16, “Leases” on January 1, 2019 and apply the modified retrospective approach, with no restatement of comparative period amounts. Our conclusion is not qualified in respect of this matter.

Key Audit Matters

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

1. Revenue recognition — related-party and unrealized gross profits on sales to associates

Refer to Note 4(14) “Revenue recognition”, and Note 7(2) “Significant related-party transactions” to the parent company only financial statements.

Description of key audit matter:

The revenue is the basic operational activity of the Company's sustainable operation, which is related to the operational performance of the enterprise, and because the main transaction is the relationship person, it has a high risk of high fraud. Therefore, the valuation of receivables is one of the key audit matters for our audit.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included testing the Company's controls surrounding revenue recognition, Collection operation cycle and Evaluating the reasonableness of commercial transactions; Evaluating revenue trend analysis; understanding the transactions of related parties and execution of the accounts; Executing the related party's letter of confirmation; Assessing the correctness and reasonableness of the gross profit margin of sales and the unrealized gross profit on sales to associates; and assessing whether the Company has properly disclosed relevant information about the sales of the related parties and unrealized gross profit on sales to associates.

2. Valuation of Inventories

Refer to Note 4(7) "Summary of Significant Accounting Policies—Inventories", Note 5 "Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty", and Note 6(4) "Description of Significant Accounts—Inventories, net" to the parent company only financial statements.

Description of key audit matter:

Inventories are stated at the lower of cost or net realizable value, and the Company uses judgments and estimates to determine the net realizable value of inventory for obsolescence and unmarketable items at the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon. However, due to the rapid industrial transformation, the above estimation may have a significant change. Therefore, the allowance to reduce inventory to market is one of the key audit matters for our audit.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included reviewing the inventory age reports to analyze the changes in the inventory levels; performing computer audit procedures in order to check the correctness of age of inventory report; reviewing production and marketing meetings to assess inventory destocking; evaluating the inventory in accordance with the Company's established accounting policies; performing inventory traceability tests; and verifying the reasonableness of the sluggish loss.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only 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 parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using equity method to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the 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 identified during our audit.

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

The engagement partners on the audit resulting in this independent auditors' report are Yu, Wan Yuan and Tseng, Mei Yu

KPMG

Hsinchu, Taiwan (Republic of China)

February 14, 2020

Notices to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, financial performance, and its cash flows in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China. The standards, procedures and practices to audit such parent company only financial statements are those generally accepted and applied in the Republic of China.

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

Holtek Semiconductor Inc.**Balance Sheets****December 31, 2019 and 2018**

(Expressed in thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018				Liabilities and Equity		Amount	%	Amount	%
Assets		Amount	%	Amount	%								
Current assets:								Current liabilities:					
1100	Cash and cash equivalents (note 6(1))	\$ 589,358	11	1,178,768	22	2150	Notes payable		\$ 111,050	2		125,021	2
1110	Financial assets measured at fair value through profit or loss — current (note 6(2))	491,203	10	486,555	9	2170	Accounts payable		295,206	6		445,222	8
1170	Notes and accounts receivable, net (note 6(3))	65,973	1	82,999	2	2180	Accounts payable to related parties (note 7)		10,622	-		4,816	-
1180	Accounts receivable from related parties (notes 6(3) and 7)	772,278	15	666,537	12	2201	Salary payable		234,739	4		250,206	5
130X	Inventories (note 6(4))	463,492	9	532,296	10	2230	Current income tax liabilities		52,501	1		96,612	2
1476	Other financial assets — current (notes 6(5) 、7 and 8)	674,250	13	576,752	10	2300	Other current liabilities (notes 6(9) and 7)		108,967	2		80,915	2
1479	Other current assets	21,102	-	22,236	-				813,085	15		1,002,792	19
		3,077,656	59	3,546,143	65			Non-current liabilities:					
Non-current assets:						2570	Deferred tax liabilities (note 6 (12))		195,698	4		159,729	3
1550	Investments accounted for using equity method (notes 6(6) and 7)	1,762,880	34	1,637,140	30	2580	Lease liabilities-non-current (note 6(9))		67,196	1		-	-
1600	Property, plant and equipment (note 6(7))	135,756	3	151,248	3	2640	Net defined benefit liabilities-non-current (note 6 (11))		79,730	2		76,602	1
1755	Right-of-use assets (note 6 (8))	78,084	1	-	-	2645	Guarantee deposit received		8,542	-		8,542	-
1840	Deferred tax assets (note 6 (12))	87,020	2	69,706	1				351,166	7		244,873	4
1900	Other non-current assets	75,520	1	42,598	1			Total liabilities					
		2,139,260	41	1,900,692	35				1,164,251	22		1,247,665	23
								Equity (notes 6(13)) :					
Total assets		\$ 5,216,916	100	5,446,835	100	3110	Ordinary share capital		2,261,682	43		2,261,682	41
						3200	Capital surplus		142,309	3		142,309	3
						3300	Retained earnings		1,680,336	32		1,832,565	34
						3400	Other equity		(31,662)	-		(37,386)	(1)
								Total equity					
								Total liabilities and equity					
									4,052,665	78		4,199,170	77
									\$ 5,216,916	100		5,446,835	100

December 31, 2019 December 31, 2018

(See accompanying notes to parent company only financial statements.)

Chairman : Wu, Chi Yung

General Manager : Gau, Kuo Tung

Accounting Manager : Liao, Ming Tung

Holtek Semiconductor Inc.**Statements of Comprehensive Income****For the years ended December 31, 2019 and 2018****(Expressed in thousands of New Taiwan Dollars, except for Earnings per Share)**

		2019		2018	
		Amount	%	Amount	%
4000	Revenue (notes 6(16) and 7)	\$ 4,052,932	100	4,358,758	100
5000	Cost of Goods Sold (notes 6(4)、(11)、(15)、7 and 12)	<u>2,201,771</u>	<u>54</u>	<u>2,274,449</u>	<u>52</u>
	Gross profits	1,851,161	46	2,084,309	48
5910	Unrealized gross profit on sales to associates	<u>41,687</u>	<u>1</u>	<u>33,928</u>	<u>1</u>
	Realized gross profits	<u>1,809,474</u>	<u>45</u>	<u>2,050,381</u>	<u>47</u>
	Operating expenses (notes 6(11)、(15) and 12) :				
6100	Selling	106,103	3	98,669	2
6200	General and administrative	218,461	5	253,565	6
6300	Research and development	635,477	16	643,748	15
6450	Expected credit impairment loss (note 6(3))	<u>(3,066)</u>	<u>-</u>	<u>3,066</u>	<u>-</u>
		<u>956,975</u>	<u>24</u>	<u>999,048</u>	<u>23</u>
	Operating income	<u>852,499</u>	<u>21</u>	<u>1,051,333</u>	<u>24</u>
	Non-operating income and expenses:				
7020	Other gains and losses (note 6(17))	(1,418)	-	1,618	-
7070	Investment income accounted for using equity method (note 6(6))	188,020	5	170,610	4
7100	Interest income	8,887	-	9,349	-
7100	Interest expense	<u>(1,176)</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>194,313</u>	<u>5</u>	<u>181,577</u>	<u>4</u>
	Income before income tax	1,046,812	26	1,232,910	28
7950	Income tax (note 6 (12))	<u>131,910</u>	<u>3</u>	<u>168,920</u>	<u>4</u>
	Net income	<u>914,902</u>	<u>23</u>	<u>1,063,990</u>	<u>24</u>
8300	Other comprehensive income:				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of the defined benefit plans (note 6(11))	(5,175)	-	(5,618)	-
8330	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	37,144	1	(58,603)	(1)
8349	Income tax relating to items that will be not reclassified subsequently (note 6(12))	<u>(1,035)</u>	<u>-</u>	<u>(1,124)</u>	<u>-</u>
		<u>33,004</u>	<u>1</u>	<u>(63,097)</u>	<u>(1)</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of financial statements of foreign affiliates	-	-	(16,431)	-
8371	Exchange differences on translation of financial statements of invested associates accounted for using equity method	(39,275)	(1)	(521)	-
8399	Income tax relating to items that may be reclassified subsequently (note 6(12))	<u>(7,855)</u>	<u>-</u>	<u>3,990</u>	<u>-</u>
		<u>(31,420)</u>	<u>(1)</u>	<u>(12,962)</u>	<u>-</u>
8300	Other comprehensive income	1,584	-	(76,059)	(1)
	Total comprehensive income	<u>\$ 916,486</u>	<u>23</u>	<u>987,931</u>	<u>23</u>
	Earnings per share (New Taiwan Dollars) (note 6(14))				
9750	Basic earnings per share	<u>\$ 4.05</u>		<u>4.70</u>	
9850	Diluted earnings per share	<u>\$ 4.01</u>		<u>4.66</u>	

(See accompanying notes to parent company only financial statements.)

Chairman : Wu, Chi Yung

General Manager : Gau, Kuo Tung

Accounting Manager : Liao, Ming Tung

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

Holtek Semiconductor Inc.

Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars)

	Retained earnings						Total other equity interest			Total equity
	Ordinary share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments measured at fair value through other comprehensive income	Total other equity interest	
Balance as of January 1, 2018	\$ 2,261,682	142,309	750,029	26,954	922,021	1,699,004	(31,756)	-	(31,756)	4,071,239
Effects of retrospective application	-	-	-	-	-	-	-	67,290	67,290	67,290
Balance as of January 1, 2018 after adjustments	<u>2,261,682</u>	<u>142,309</u>	<u>750,029</u>	<u>26,954</u>	<u>922,021</u>	<u>1,699,004</u>	<u>(31,756)</u>	<u>67,290</u>	<u>35,534</u>	<u>4,138,529</u>
Net income for the period	-	-	-	-	1,063,990	1,063,990	-	-	-	1,063,990
Other comprehensive income for the period	-	-	-	-	(4,494)	(4,494)	(12,962)	(58,603)	(71,565)	(76,059)
Total comprehensive income for the period	-	-	-	-	1,059,496	1,059,496	(12,962)	(58,603)	(71,565)	987,931
Appropriation and distribution of retained earnings										
Appropriation for legal reserve	-	-	92,202	-	(92,202)	-	-	-	-	-
Appropriation for special reserve	-	-	-	7,445	(7,445)	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	(104,942)	-	(822,348)	(927,290)	-	-	-	(927,290)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	1,355	1,355	-	(1,355)	(1,355)	-
Balance as of December 31, 2018	<u>2,261,682</u>	<u>142,309</u>	<u>737,289</u>	<u>34,399</u>	<u>1,060,877</u>	<u>1,832,565</u>	<u>(44,718)</u>	<u>7,332</u>	<u>(37,386)</u>	<u>4,199,170</u>
Net income for the period	-	-	-	-	914,902	914,902	-	-	-	914,902
Other comprehensive income for the period	-	-	-	-	(4,140)	(4,140)	(31,420)	37,144	5,724	1,584
Total comprehensive income for the period	-	-	-	-	910,762	910,762	(31,420)	37,144	5,724	916,486
Appropriation and distribution of retained earnings:										
Appropriation for legal reserve	-	-	106,088	-	(106,088)	-	-	-	-	-
Appropriation for special reserve	-	-	-	2,987	(2,987)	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	(111,275)	-	(951,716)	(1,062,991)	-	-	-	(1,062,991)
Balance as of December 31, 2019	<u>\$ 2,261,682</u>	<u>142,309</u>	<u>732,102</u>	<u>37,386</u>	<u>910,848</u>	<u>1,680,336</u>	<u>(76,138)</u>	<u>44,476</u>	<u>(31,662)</u>	<u>4,052,665</u>

(See accompanying notes to parent company only financial statements.)

Chairman : Wu, Chi Yung

General Manager : Gau, Kuo Tung

Accounting Manager : Liao, Ming Tung

Holtek Semiconductor Inc.**Statements of Cash Flows****For the years ended December 31, 2019 and 2018****(Expressed in thousands of New Taiwan Dollars)**

	2019	2018
Cash flows from operating activities:		
Income before income tax	\$ 1,046,812	1,232,910
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation	50,088	33,247
Amortization	72,609	54,186
Expected credit impairment loss of gains on reversal	(3,066)	3,066
Interest expense	1,176	-
Interest income	(8,887)	(9,349)
Investments income accounted for using equity method	(188,020)	(170,610)
Unrealized gross profit on sales to associates	41,687	33,928
Other items not affecting cash flows, net	4,953	6,379
Changes in operating assets and liabilities:		
Decrease (increase) in Financial assets measured at fair value through profit or loss	(2,853)	97,382
Decrease (increase) in accounts receivable (including related parties)	(85,649)	32,993
Decrease (increase) in inventories	62,743	(53,019)
Increase in other operating assets	(285)	(12,247)
Increase (decrease) in accounts payable	(158,181)	17,579
Decrease in net defined benefit liability	(2,798)	(1,953)
Increase (decrease) in other operating liabilities	(16,652)	9,231
Cash flows from operations	813,677	1,273,723
Interest received	9,000	9,263
Dividend received	18,526	-
Interest paid	(1,176)	-
Income tax paid	(148,476)	(119,958)
Net cash flows from operating activities	691,551	1,163,028
Cash flows from investing activities:		
Acquisitions of investments accounted for using equity method	-	(3)
Acquisitions of property, plant and equipment	(22,817)	(19,502)
Proceeds from disposals of property, plant and equipment	-	33
Decrease (increase) in Guarantee deposits paid	544	(724)
Decrease (increase) in other financial assets	(97,306)	105,908
Increase in other non-current assets	(87,137)	(64,107)
Net cash flows from investing activities	(206,716)	21,605
Cash flows from financing activities:		
Payments of lease liabilities	(11,254)	-
Cash dividends paid	(1,062,991)	(927,290)
Net cash flows used in financing activities	(1,074,245)	(927,290)
Net increase (decrease) in cash and cash equivalents	(589,410)	257,343
Cash and cash equivalents at beginning of period	1,178,768	921,425
Cash and cash equivalents at end of period	\$ 589,358	1,178,768

(See accompanying notes to parent company only financial statements.)**Chairman : Wu, Chi Yung General Manager : Gau, Kuo Tung Accounting Manager : Liao, Ming Tung**

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements
December 31, 2019 and 2018
(Amounts expressed in thousands of New Taiwan Dollars,
except for per share information and unless otherwise noted)

1. Organization

Holtek Semiconductor Inc. (“the Company”) was incorporated on October 1, 1998, as a company limited by shares under the laws of the Republic of China (“ROC”) and the ROC Statute for the Establishment and Administration of the Science-Based Industrial Park. The Company began operations on December 11, 1998. The Company established a Hong Kong branch in April 2000. The shares of the Company have been listed on the Taipei Exchange (“TPEX”) since November 4, 2002, and then listed on the Taiwan Stock Exchange (“TWSE”) since September 27, 2004.

The Company is engaged mainly in the research, development, production, manufacture and sales of integrated circuits.

2. Approval Date and Procedures of the Financial Statements

The accompanying parent company only financial statements were passed for issue by the Board of Directors on February 5, 2020.

3. New Standards, Amendments and Interpretations Adopted

- (1) Impact of adoption of new, revised or amended standards and interpretations endorsed by the Financial Supervisory Commission, ROC (“FSC”)

In preparing the accompanying parent company only financial statements, the Company has adopted the following International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), and Interpretations that have been issued by the International Accounting Standards Board (“IASB”) (collectively, “IFRSs”) and endorsed by the FSC, with effective date from January 1, 2019.

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

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

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

A. IFRS 16“Leases”

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

The Company applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below:

(e) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(3).

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

(f) As a lessee

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

The Company decided to apply recognition exemptions to short-term leases and low-value leases of company cars and leases of dormitory.

Leases classified as operating leases under IAS 17. At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

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

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

(g) As a lessor

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

(h) Impacts on financial statements

On transition to IFRS 16, the Company recognized additional \$89,863 of right-of-use assets and lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.4%.

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

Holtek Semiconductor Inc.
Notes to Parent Company Only Financial Statements

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statements	\$ 34,317
Recognition exemption for:	
short-term leases	(3,474)
Extension and termination options reasonably certain to be exercised	<u>71,165</u>
	<u>102,008</u>
Discounted using the incremental borrowing rate at January 1, 2019	89,863
Finance lease liabilities recognized as at December 31, 2018	<u>-</u>
Lease liabilities recognized at January 1, 2019	<u>89,863</u>

B. IFRIC 23 “*Uncertainty over Income Tax Treatments*”

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Company estimated the application of the new amendments will not have any material impact on its consolidated financial statements.

(2) The impact of IFRS endorsed by the FSC but not yet effective

According to Ruling No. 1080323028 issued on July 29, 2019 by the FSC, commencing from 2020, the Company is required to adopt the IFRSs that have been endorsed by the FSC with effective date from January 1, 2020. The related new, revised or amended standards and interpretations are set out below:

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New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 3 “ <i>Definition of a Business</i> ”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “ <i>Interest Rate Benchmark Reform</i> ”	January 1, 2020
Amendments to IAS 1 and IAS 8 “ <i>Definition of Material</i> ”	January 1, 2020

Except for the following items, the Company believes that the adoption of the above IFRS would not have any material impact on its consolidated financial statements.

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

As of the date, the following IFRS have been issued by IASB, but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 10 and IAS 28 “ <i>Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture</i> ”	Effective date to be determined by IASB
IFRS 17 “ <i>Insurance Contracts</i> ”	January 1, 2021

The Company is in the process of assessing the impact on financial position and results of operations of the above standards and interpretations. The Company will disclose the related results when the assessment is finalized.

4. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these parent company only financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all periods presented in these parent company only financial statements.

(1) Statement of compliance

The parent company only financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

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(2) Basis of preparation

A. Basis of measurement

The parent company only financial statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

- (a) Financial assets measured at fair value through profit or loss are measured at fair value;
- (b) The net defined benefit liability is recognized as the fair value of the plan assets, less, the present value of the defined benefit obligation.

B. Functional and presentation currency

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

(3) Foreign currency

A. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Company at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

B. Foreign operations

The assets and liabilities of foreign operations are translated to NTD using the exchange rates at the reporting date with the exception of shareholders' equity, which is translated at historical cost rates, and income and expenses, which are translated to NTD at the average rate for the period. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the

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Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

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

The Company classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- A. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- B. It holds the asset primarily for the purpose of trading;
- C. It expects to realize the asset within twelve months after the reporting period; or
- D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

- A. It expects to settle the liability in its normal operating cycle;
- B. It holds the liability primarily for the purpose of trading;
- C. The liability is due to be settled within twelve months after the reporting period; or
- D. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

(5) Cash and cash equivalents

Cash comprise cash and cash in bank. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

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(6) Financial instruments

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

B. Financial assets

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

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

(f) Financial assets measured at amortized cost

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

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

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

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(g) Financial assets measured at fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets.

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

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss.

(h) Impairment of financial assets

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

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

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable are always measured at an amount equal to lifetime ECL.

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

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

The Company considers a financial asset to be in default when the financial asset is more than 180 days past due and the borrower is unlikely to pay its credit obligations to the Company in full.

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The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade which is considered to be BBB- or higher per Standard & Poor' s, Baa3 or higher per Moody' s or twA or higher per Taiwan Ratings.

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

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

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

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The loss allowance is charged to profit or loss.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off.

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

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(i) Derecognition of financial assets

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

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

B. Financial liabilities

(a) Classification of debt

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

(b) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(c) Derecognition of financial liabilities

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

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

(d) Offsetting of financial assets and liabilities

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

(7) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the weighted average method and includes expenditure and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(8) Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over their financial and operating policies. When the Company holds 20% to 50% of the voting rights of the investee company, it assumes that it has significant influence and adopts equity evaluation

Under the equity method, investments in associates are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill, which is arising from the acquisition, less any accumulated impairment losses.

The parent company only financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align their accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Company and associates are eliminated to the extent of the Company's interest in the associate.

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When the Company's share of losses exceeds its interest in associates, the carrying amount of that investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has a present legal or constructive obligation or has made payments on behalf of the investees.

(9) Investment in subsidiaries

The Company's subsidiaries are accounted for using equity method when preparing their parent company only financial statements. Under the equity method, profit, other comprehensive income and equity in the parent company only financial statements are equivalent to those of the profit, other comprehensive income and equity which are contributed to the owners of the parent in the parent company only financial statements.

The Company's change in the ownership interests of the subsidiaries did not result in loss of control and were treated as an interest transaction with the owner.

(10) Property, plant and equipment

A. Recognition and measurement

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

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

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

B. Subsequent cost

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

C. Depreciation

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

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The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- (a) Buildings: 20 to 30 years
- (b) Machinery and equipment: 3 to 5 years
- (c) Other equipment: 2 to 8 years

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

(11) Leases

Applicable from January 1, 2019

D. Identifying a lease

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

- (d) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- (e) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- (f) the Company has the right to direct the use of the asset only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

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

E. As a lease

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

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

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

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

- (e) fixed payments;
- (f) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (g) amounts expected to be payable under a residual value guarantee; and
- (h) payments for purchase or termination options that are reasonably certain to be exercised.

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

- (f) there is a change in future lease payments arising from the change in an index or rate; or
- (g) there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or

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- (h) there is a change of its assessment on whether it will exercise a purchase; or
- (i) there is a change of its assessment on whether it will extension or termination option; or
- (j) there is any lease modifications

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

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

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

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

F. As a lessor

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

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

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Applicable by December 31, 2018

Payments made under operating lease are recognized in expenses on a straight-line basis over the term of the lease.

(12) Intangible assets

A. Recognition and measurement

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

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

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

B. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

C. Amortization

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

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

(13) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (except for inventories and deferred income tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

(14) Revenue from contract with customers

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

C. Sale of goods

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

A receivable is recognized when the goods are delivered as this is the point in time that the Company has a right to an amount of consideration that is unconditional.

D. Financing components

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

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(15) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

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

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

C. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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(16) Income tax

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

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

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

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

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

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

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

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(17) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares.

(18) Operating segment information

The Company has disclosed operating segment information in consolidated financial statements. Hence, this information is not required to be disclosed in these parent company only financial statements.

5. Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty

The preparation of the parent company only financial statements in conformity with “*Regulations Governing the Preparation of Financial Reports by Securities Issuers*” requires management to make judgments, estimations and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimations.

Management continues to monitor the accounting estimations and assumptions. Management recognizes any changes in the accounting estimations during the period in which the estimates are revised and in any future periods affected.

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

Valuation of inventories

Inventories are stated at the lower of cost or net realizable value, and the Company uses judgments and estimates to determine the net realizable value of inventory for obsolescence and unmarketable items at the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon. However, due to the rapid industrial transformation, the above estimation may have a significant change. Please refer to note 6(4) for further description of the valuation of inventories.

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The Company's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Company's financial instrument valuation company conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation company also periodically adjusts valuation models, conducts back testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value.

The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to Note 6(18) for assumptions used in measuring fair value.

6. Description of Significant Accounts

(1) Cash and cash equivalents

	December 31,	
	2019	2018
Cash and cash in bank	\$ 66,536	151,095
Time deposits	<u>522,822</u>	<u>1,027,673</u>
	<u>\$ 589,358</u>	<u>1,178,768</u>

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

	December 31,	
	2019	2018
Financial assets available-for-sale — beneficiary certificates	\$ 491,203	486,555

If there had been an increase or decrease in the fair value of securities of 1% on the reporting date, net income would have increased (or decreased) by \$3,930 and \$3,892 for the years ended December 31, 2019 and 2018, respectively. The analysis is performed on the same basis for both periods and assumes that all other variables remain constant.

(3) Notes and accounts receivable, net (including related parties)

	December 31,	
	2019	2018
Notes receivable	\$ 1,122	278
Accounts receivable	72,244	93,180
Accounts receivable from related parties	<u>772,278</u>	<u>666,537</u>
	845,644	759,995
Less: allowance for doubtful accounts	<u>(7,393)</u>	<u>(10,459)</u>
	<u>\$ 838,251</u>	<u>749,536</u>

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The Company applies the simplified approach to provide for its loss allowance used for ECL, which permit the use of lifetime expected loss provision for notes and accounts receivable. The ECL on notes and accounts receivable by reference to past default experience of the customers and credit risk characteristics, as well as forward looking information, the loss allowance was determined as follows:

	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Loss allowance
Not past due	\$ 834,035	0.5%~1.5%	6,812
Past due 0~90days	11,609	5%	581
	<u>\$ 845,644</u>		<u>7,393</u>

	December 31, 2018		
	Gross carrying amount	Weighted-average loss rate	Loss allowance
Not past due	\$ 743,494	0.5%~1.5%	7,287
Past due 0~90days	2,118	5%	106
	<u>\$ 745,612</u>		<u>7,393</u>

As of December 31, 2018, individual customers' accounts receivable amounted to \$14,383, which has been assessed as having default risk. Therefore, the Company provides the loss allowance for the customer amounted to \$3,066. As of December 31, 2019, the customer had made payment in accordance with the payment schedule, resulting in an expected credit loss of \$3,066 was reversed.

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

	For the year ended December 31,	
	2019	2018
Opening balance	\$ 10,459	7,393
Impairment losses recognized	-	3,066
Impairment losses reversed	(3,066)	-
Ending balance	<u>\$ 7,393</u>	<u>10,459</u>

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(4) Inventories

	December 31,	
	2019	2018
Raw materials	\$ 167,012	155,344
Work in process	232,872	248,246
Finished goods and merchandise inventories	63,608	128,706
	<u>\$ 463,492</u>	<u>532,296</u>

The details of operating costs were as follows:

	For the year ended December 31,	
	2019	2018
Cost of goods sold	\$ 2,195,710	2,266,994
Cost of scrap materials	6,061	7,455
	<u>\$ 2,201,771</u>	<u>2,274,449</u>

(5) Other current financial assets-current

	December 31,	
	2019	2018
Time deposits (more than 3 months)	\$ 655,700	559,900
Restricted cash in banks	5,118	3,612
Others	13,432	13,240
	<u>\$ 674,250</u>	<u>576,752</u>

No impairment loss of other financial assets-current were occurred and recognized for the year ended December 31, 2019 and 2018.

Please refer to note 6 (18) for further information of credit risk.

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(6) Investments accounted for using equity method

Investments accounted for using equity method at the reporting date were as following:

	December 31,	
	2019	2018
Subsidiaries	\$ 1,976,610	1,809,247
Less: unrealized gross profits on sales to associates	(213,730)	(172,107)
	<u>\$ 1,762,880</u>	<u>1,637,140</u>

Please refer to consolidated financial statements for the year ended December 31, 2019, for the subsidiaries information.

Share of the profit of subsidiaries accounted for using equity method were \$188,020 and \$170,610 for the years ended December 31, 2019 and 2018, respectively.

(7) Property, plant and equipment

Changes in the cost, and depreciation of the Company's property, plant and equipment were as follows:

	Land	Buildings	Machinery and equipment	Other equipment	Total
Cost:					
Balance as of January 1, 2019	\$ 26,676	268,982	257,317	43,422	596,397
Additions	-	1,648	12,862	8,307	22,817
Disposals	-	-	(57,532)	(1,132)	(58,664)
Balance as of December 31, 2019	<u>\$ 26,676</u>	<u>270,630</u>	<u>212,647</u>	<u>50,597</u>	<u>560,550</u>
Balance as of January 1, 2018	\$ 26,676	265,663	247,694	42,502	582,535
Additions	-	3,319	15,188	995	19,502
Disposals	-	-	(5,565)	(75)	(5,640)
Balance as of December 31, 2018	<u>\$ 26,676</u>	<u>268,982</u>	<u>257,317</u>	<u>43,422</u>	<u>596,397</u>
Accumulated depreciation:					
Balance as of January 1, 2019	\$ -	183,821	228,550	32,778	445,149
Depreciation for the period	-	15,845	16,592	5,872	38,309
Disposals	-	-	(57,532)	(1,132)	(58,664)
Balance as of December 31, 2019	<u>\$ -</u>	<u>199,666</u>	<u>187,610</u>	<u>37,518</u>	<u>424,794</u>
Balance as of January 1, 2018	\$ -	169,688	220,104	27,693	417,485
Depreciation for the period	-	14,133	13,954	5,160	33,247
Disposals	-	-	(5,508)	(75)	(5,583)
Balance as of December 31, 2018	<u>\$ -</u>	<u>183,821</u>	<u>228,550</u>	<u>32,778</u>	<u>445,149</u>

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Book value:

Balance as of December 31, 2019	<u>\$ 26,676</u>	<u>70,964</u>	<u>25,037</u>	<u>13,079</u>	<u>135,756</u>
Balance as of December 31, 2018	<u>\$ 26,676</u>	<u>85,161</u>	<u>28,767</u>	<u>10,644</u>	<u>151,248</u>
Balance as of January 1, 2018	<u>\$ 26,676</u>	<u>95,975</u>	<u>27,590</u>	<u>14,809</u>	<u>165,050</u>

(8) Right-of-use assets

Changes in the cost, and depreciation of the Company's land and buildings were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost :			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	67,341	22,522	89,863
Balance at December 31, 2019	<u>\$ 67,341</u>	<u>22,522</u>	<u>89,863</u>
Accumulated depreciation :			
Balance at January 1, 2019	\$ -	-	-
Depreciation for the year	3,061	8,718	11,779
Balance at December 31, 2019	<u>\$ 3,061</u>	<u>8,718</u>	<u>11,779</u>
Carrying amount :			
Balance at December 31, 2019	<u>\$ 64,280</u>	<u>13,804</u>	<u>78,084</u>

The Company leases offices under an operating lease for the year ended December 31, 2018, please refer to note 6(10).

(9) Lease liabilities

The amount of lease liabilities was as follows:

	<u>December 31, 2019</u>
Current	<u>\$ 11,413</u>
Non-current	<u>\$ 67,196</u>

The amounts recognized in profit or loss were as follows:

	<u>For the year ended December 31, 2019</u>
Interest on lease liabilities	<u>1,176</u>
Expenses relating to short-term leases	<u>4,838</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>571</u>

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

	For the year ended December 31, 2019
Total cash outflow for leases	\$ <u>17,839</u>

Real estate leases

As of December 31, 2019, the Company leases land and buildings for its office space. The leases of land typically run for a period of 20 years, and of buildings for 2 to 5 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Some leases of office buildings contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. These leases are negotiated and monitored by local management, and accordingly, contain a wide range of different terms and conditions. The extension options held are exercisable only by the Company and not by the lessors. In which lease is not reasonably certain to use an optional extended lease term, payments associated with the optional period are not included within lease liabilities.

The rental amount of the land contract shall be adjusted by the fluctuation of the current land value in the local area and the amortized expenditures used in public infrastructures.

(10) Operating lease

A. Based on the terms of lease contracts of office buildings, parking spaces, and staff dormitory, the future minimum lease payments are as follows:

	December 31, 2018
Less than one year	\$ 15,458
Between one and two years	12,885
More than two years	<u>5,974</u>
	\$ <u>34,317</u>

B. The Company entered into a land lease agreement with the Hsinchu Science Park Administration. The term of the lease is from March 15, 2001 to December 31, 2020. When the lease term expires, a new agreement will be offered. The annual rental fee is around \$3,558 from February 2018. The rental payment is subject to an adjustment as the government revises the land value.

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(11) Employee benefits

A. Defined benefit plans

The present value of the defined benefit obligation and the fair value adjustments of the plan assets for the Company were as follows:

	December 31,	
	2019	2018
Present value of the defined benefit obligation	\$ 132,272	127,611
Fair value of plan assets	(52,542)	(51,009)
Net defined benefit liabilities	<u>\$ 79,730</u>	<u>76,602</u>

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

(a) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor (hereinafter referred to as the Bureau of Labor Funds). Minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$52,542 as of December 31, 2019. For information on the utilization of the labor pension fund assets including the asset allocation and yield rate of the fund, please refer to the website of the Bureau of Labor Funds.

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(b) Changes in the present value of the defined benefit obligation

The changes in the present value of the defined benefit obligation of the Company for the years ended December 31, 2019 and 2018 were as follows:

	For the year ended December 31,	
	2019	2018
Defined benefit obligation as of January 1	\$ 127,611	123,354
Benefits paid from plan assets	(3,581)	(4,234)
Current service costs and interest	1,275	1,480
Remeasurements of the net defined benefit liabilities		
— Actuarial loss arising from changes in financial assumptions	4,703	3,225
— Actuarial loss (gain) arising from experience adjustments	2,264	3,786
Defined benefit obligation as of December 31	<u>\$ 132,272</u>	<u>127,611</u>

(c) Changes in the fair value of the defined benefit plan assets

The changes in the fair value of the defined benefit plan assets of the Company for the years ended December 31, 2019 and 2018 were as follows:

	For the year ended December 31,	
	2019	2018
Fair value of plan assets as of January 1	\$ 51,009	50,416
Benefits paid from plan assets	(3,581)	(4,234)
Interest income	524	622
Contributions made	2,798	2,812
Remeasurements of the net defined benefit liabilities		
— Return on plan assets (excluding current interest)	1,792	1,393
Fair value of plan assets as of December 31	<u>\$ 52,542</u>	<u>51,009</u>

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(d) Expenses recognized in profit or loss

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

	For the year ended December 31,	
	2019	2018
Net interest on the net defined benefit liabilities	\$ 751	858
Cost of goods sold	\$ 48	57
Selling expenses	59	65
General and administrative expenses	115	152
Research and development expenses	529	584
	\$ 751	858

(e) Remeasurements of the net defined benefit liabilities recognized in other comprehensive income

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

	For the year ended December 31,	
	2019	2018
Cumulative amount as of January 1	\$ 21,503	15,885
Recognized for the period	5,175	5,618
Cumulative amount as of December 31	\$ 26,678	21,503

(f) Actuarial assumptions

The following are the Company's significant actuarial assumptions of the present value of the defined benefit obligation at the reporting date

	December 31,	
	2019	2018
Discount rate	0.70%	1.00%
Future salary increase rate	2.00%	2.00%

The Company expects to make a contribution of \$2,870 to its defined benefit plans in the following year, beginning December 31, 2019.

The weighted-average duration of the defined benefit obligation is 11.8 years.

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(g) Sensitivity analysis

If there is a change in the actuarial assumptions as of the December 31, 2019 and 2018, the impact on the defined benefit obligation would be as follows:

<u>actuarial assumptions</u>	Impact on the defined benefit obligation	
	<u>Increase 0.5%</u>	<u>Decrease 0.5%</u>
December 31, 2019		
Discount rate	<u>\$ (7,717)</u>	<u>8,351</u>
Future salary increase rate	<u>\$ 7,552</u>	<u>(7,084)</u>
<u>actuarial assumptions</u>	Increase 1% Decrease 1%	
	<u>Increase 1%</u>	<u>Decrease 1%</u>
December 31, 2018		
Discount rate	<u>\$ (15,127)</u>	<u>17,814</u>
Future salary increase rate	<u>\$ 16,056</u>	<u>(14,039)</u>

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

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

B. Defined contribution plans

In accordance with the provisions of the Labor Pension Act, the Company should contribute 6% of its employees' monthly wages to their labor pension personal accounts of the Bureau of Labor Insurance, Ministry of Labor (hereinafter referred to as the Bureau of Labor Insurance). Under this defined contribution plan, the Company contributes a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations. The Company's pension costs under the defined contribution plan were \$22,180 and \$21,105 for the years ended December 31, 2019 and 2018, respectively.

Except for the above, the total pension costs of the Company's overseas branch under their respective defined contribution plan were \$786 and \$2,247 for the years ended December 31, 2019 and 2018, which were recognized in accordance with their local regulations.

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(12) Income tax

A. Income tax expenses

According to the amendments to the “Income Tax Act” enacted by the office of the President of the R.O.C. on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing from 2018.

The amount of income tax expenses for the years ended December 31, 2019 and 2018, was as follows:

	For the year ended December 31,	
	2019	2018
Current income tax expense		
Current period	\$ 109,398	138,171
Adjustment to prior years	(5,033)	(3,754)
	<u>104,365</u>	<u>134,417</u>
Deferred income tax expense		
Temporary differences	27,545	23,202
Adjustment in tax rate	-	11,301
	<u>27,545</u>	<u>34,503</u>
Income tax expenses	<u>\$ 131,910</u>	<u>168,920</u>

The amount of income tax expense (benefit) recognized in other comprehensive income for the years ended December 31, 2019 and 2018, was as follows:

	For the year ended December 31,	
	2019	2018
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of the defined benefit plans	<u>\$ (1,035)</u>	<u>(1,124)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign affiliates	-	(3,870)
Exchange differences on translation of financial statements of invested associates accounted for using equity method	<u>(7,855)</u>	<u>(120)</u>
	<u>\$ (7,855)</u>	<u>(3,990)</u>

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The reconciliation of income tax expenses and income before income tax was as follows:

	For the year ended December 31,	
	2019	2018
Income before income tax	\$ 1,046,812	1,232,910
Income tax at the Company's domestic tax rate	209,362	246,582
Permanent differences adjustment	(1,671)	(4,459)
Tax-exempt income	(67,733)	(77,572)
Estimated increase in investment tax credit	(3,015)	(2,498)
Adjustment in tax rate	-	11,301
Other	(5,033)	(4,434)
	\$ 131,910	\$ 168,920

B. The changes of deferred tax assets and liabilities were as follows:

Deferred tax assets

	January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2019
Unrealized loss from Inventory devaluation	\$ 10,200	(1,800)	-	12,000	-	-	12,000
Unrealized gross profit from sales to associates	23,501	(10,920)	-	34,421	(8,325)	-	42,746
Net defined benefit liabilities	12,399	(1,797)	(1,124)	15,320	409	(1,035)	15,946
Loss from exchange differences on translation of financial statements of foreign affiliates	3,403	-	(3,990)	7,393	-	(7,855)	15,248
Others	-	(572)	-	572	(508)	-	1,080
	\$ 49,503	(15,089)	(5,114)	69,706	(8,424)	(8,890)	87,020

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Deferred tax liabilities

	January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2019
Foreign investment gains under the equity method	\$ (109,085)	49,526	-	(158,611)	36,079	-	(194,690)
Others	(1,052)	66	-	(1,118)	(110)	-	(1,008)
	<u>\$ (110,137)</u>	<u>49,592</u>	<u>-</u>	<u>(159,729)</u>	<u>35,969</u>	<u>-</u>	<u>(195,698)</u>

C. The tax authorities have assessed the Company's income tax returns through 2016.

(13) Capital and other equity interest

A. Ordinary shares

As of December 31, 2019 and 2018, the authorized capital of the Company amounted to \$3,000,000 of which included the amount of \$200,000 reserved for employee share options and the amount of \$500,000 for convertible bonds. The Company's issued and outstanding common stock, with par value of \$10 per share, both amounted to \$2,261,682 as at December 31, 2019 and 2018.

B. Capital surplus

The balance of capital surplus as of December 31, 2019 and 2018, were as follows:

	December 31,
	2019 2018
Capital surplus — premium	<u>\$ 142,309</u> <u>142,309</u>

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be distributed as stock or cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received

Pursuant to the R.O.C. Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the total sum of the capital surplus capitalized per annum shall not exceed 10% of the paid-in capital.

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C. Retained earnings

According to the Company's Articles of Incorporation, if the Company has profit as a result of the accounting year, the Company shall first pay taxes, offset its losses in previous years and set aside a legal reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled the total capital of the Company, then set aside special capital reserve in accordance with relevant laws or regulations or as requested by business. Any rest balance, added to the accumulated undistributed earnings in previous years, shall be allocated by board of directors and shall be approved in shareholders' meeting.

The amount of dividends distributed to shareholders shall be no less than 50% of the distributable earnings of the year and no less than 50% of the shareholder's dividends shall be in the form of cash.

(a) Legal reserve

Pursuant to the R.O.C. Company Act, the appropriation for legal reserve shall be made until the reserve equals the Company's paid-in capital. If the Company incurs no loss, the reserve may be distributed as cash or stock dividends for the portion in excess of 25% of the paid-in capital.

(b) Special reserve

By choosing to apply exemptions granted under IFRS 1 during the Company's first-time adoption of the IFRSs endorsed by the FSC, cumulative translation adjustments under shareholders' equity shall be reclassified as retained earnings at the adoption date. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs endorsed by the FSC amounted to \$18,008. And the Company's actuarial gains and losses be reclassified as retained earnings at the adoption date. The decrease in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs endorsed by the FSC amounted to \$13,410. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a net increase in retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC shall be reclassified as a special reserve amounted to \$4,598 during earnings distribution, and when the relevant asset is used, disposed of, or reclassified, this special reserve shall be reversed as distributable earnings proportionately.

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The Company liquidated its subsidiary, Holtek Semiconductor (Shenzhen) Inc. in August, 2014. In accordance with the provisions of the above-mentioned regulations, the special reserve was reclassified to retained earnings amounted to \$1,956. The carrying amount of special reserve both amounted to \$2,642 as of December 31, 2019 and 2018.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special reserve resulting from the first-time adoption of the IFRSs endorsed by the FSC and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of the IFRSs endorsed by the FSC. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(c) Earnings distribution

The following are the appropriation of earnings in 2018 and 2017 which were approved in the shareholders' meeting held on May 29, 2019 and May 28, 2018, respectively:

	For the year ended December 31,			
	2018		2017	
	NT dollars per share	Total amount	NT dollars per share	Total amount
Cash dividends distributed to ordinary shareholders:	<u><u>\$ 4.70</u></u>	<u><u>1,062,991</u></u>	<u><u>4.10</u></u>	<u><u>927,290</u></u>

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(14) Earnings per share

The Company's calculation of basic earnings per share was as follows:

	For the year ended December 31,	
	2019	2018
Basic earnings per share:		
Net income for the period	<u>\$ 914,902</u>	<u>1,063,990</u>
Weighted-average number of ordinary shares outstanding during the year (in thousands)	<u>226,168</u>	<u>226,168</u>
Basic earnings per share (NT dollars)	<u>\$ 4.05</u>	<u>4.70</u>
Diluted earnings per share:		
Net income for the period	<u>\$ 914,902</u>	<u>1,063,990</u>
Weighted-average number of ordinary shares outstanding during the year (in thousands)	226,168	226,168
Remuneration to employees	<u>1,756</u>	<u>2,335</u>
Weighted-average number of ordinary shares outstanding during the year (diluted) (in thousands)	<u>227,924</u>	<u>228,503</u>
Diluted earnings per share (NT dollars)	<u>\$ 4.01</u>	<u>4.66</u>

(15) Remuneration to employees and directors

According to the Company's Articles of Incorporation, when allocating the net profits for each fiscal year, the Company shall distribute 5~15% of profit of the current year distributable as employees' compensation and no more than 1.5% of profit of the current year distributable as remuneration of directors and supervisors. However, the Company's accumulated losses shall have been covered.

The remunerations to employees amounted to \$109,968 and \$129,225, and the remunerations to directors amounted to \$12,019 and \$14,248 for the years ended December 31, 2019 and 2018, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the percentage which is stated under the Company's Article of Incorporation. These remunerations were expensed under cost of goods sold or expenses for the years ended December 31, 2019 and 2018. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholders' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. If remuneration to employees is resolved to be distributed in stock, the number of shares is determined by dividing

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the amount of remuneration by the closing market price of the shares on the day preceding the board of directors' meeting.

Remuneration to employees and directors for 2018 in the amounts of \$129,225 and \$14,248, respectively. The aforementioned approved amounts are the same as the amounts charged against earnings of 2018. Remuneration to employees and directors for 2017 in the amounts of \$111,567 and \$12,286, respectively, which were paid in cash. The actual remunerations to directors amounted to \$12,176 for the years ended December 31, 2017, and the difference is recognized as accounts adjustments. The information is available on the Market Observation Post System website.

(16) Revenue from Contracts with Customers

C. Segmentation of revenue

	For the year ended December 31,	
	2019	2018
Revenues from major regional markets:		
China	\$ 2,972,782	3,331,122
Taiwan	435,967	570,137
Others	644,183	457,499
	<u>\$ 4,052,932</u>	<u>4,358,758</u>
Revenue from major products:		
sales of integrated circuits	\$ 4,018,449	4,296,835
Design revenue	34,483	61,923
	<u>\$ 4,052,932</u>	<u>4,358,758</u>

D. Contract balance

Please refer to note 6(3) for the amount of accounts receivables and impairment loss.

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(17) Non-operating income and expenses

The details of other income and expenses were as follows:

	For the year ended December 31,	
	2019	2018
Foreign exchange losses	\$ (8,432)	(3,977)
Others	7,014	5,595
	\$ (1,418)	1,618

(18) Financial instruments

A. Credit risk

(a) Exposure to credit risk

Maximum credit risk exposure is mainly from the carrying amount of financial assets recognized in the balance sheet. The amounts of maximum credit risk exposure for the years ended December 31, 2019 and 2018, were \$2,598,804 and \$2,997,897 respectively.

Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factors were cash and cash equivalents, time deposits over 3 months, and customers' accounts receivables.

The cash and time deposits are deposited in different financial institutions.

The Company manages the credit risk exposure with each of these financial institutions and believes that cash do not have a significant credit risk concentration.

The main sales of the Company are domestic and foreign companies with good reputation, in addition to the credit line according to the operation procedures, and continue to understand the credit status of customers. As of December 31, 2019 and 2018, customers (including related parties) whose notes and accounts receivables that accounted for more than 10% have amounted to \$635,855 and \$410,501, respectively. The Company has concentration of credit risk arising from sales transactions. The Company has estimated the recoverable amount and recognized allowance for doubtful accounts, the management expected that no significant impairment loss will occurred.

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(b)Credit risk of accounts receivables and debt securities

Please refer to note 6(3) for the information of the credit risk exposure of note and trade receivables.

Other financial assets at amortized cost include time deposits (more than 3 months) and restricted cash in banks. Please refer to note 6(5) for the information of the details and loss allowance.

Please refer to note 4(6) for the information of the above financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk.

B. Liquidity risk

The following are the contractual maturities of financial liabilities:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1year</u>	<u>More than 5 years</u>
December 31, 2019				
Non-derivative financial liabilities				
Notes and accounts payable (including related parties)	\$ 416,878	416,878	416,878	-
Guarantee deposit received	8,542	8,542	-	8,542
Lease liabilities (including recorded in other current liabilities)	<u>78,609</u>	<u>88,770</u>	<u>12,430</u>	<u>76,340</u>
	<u>\$ 504,029</u>	<u>514,190</u>	<u>429,308</u>	<u>84,882</u>
December 31, 2018				
Non-derivative financial liabilities				
Notes and accounts payable	\$ 575,059	575,059	575,059	-
Guarantee deposit received	<u>8,542</u>	<u>8,542</u>	<u>-</u>	<u>8,542</u>
	<u>\$ 583,601</u>	<u>583,601</u>	<u>575,059</u>	<u>8,542</u>

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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C. Market risk

(a) Currency risk

i. Exposure to currency risk

The Company's financial assets and liabilities exposed to exchange rate risk were as follows:

		December 31, 2019			December 31, 2018		
		Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>							
<u>Monetary items</u>							
USD	\$	2,505	29.93	74,988	10,924	30.665	334,987
RMB		177,957	4.2781	761,317	162,242	4.4459	721,313
<u>Non-monetary items</u>							
USD	\$	49,077	29.93	1,468,877	42,996	30.665	1,318,474
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD	\$	5,924	29.93	177,316	9,311	30.665	285,533
RMB		7,167	4.2781	30,660	13,886	4.4459	61,737

ii. Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, and accounts payable that are denominated in foreign currency. A fluctuation in the NTD/USD and NTD/RMB exchange rate on the reporting date, with other factors remaining constant, would have increased or decreased the net income amounted to \$5,027 and \$5,672 for the years ended December 31, 2019 and 2018, respectively.

iii. Foreign exchange gains (losses) on monetary items

Due to the variety of the functional currencies of the Company, the Company's foreign exchange losses on monetary items amounted to \$8,432 and \$3,977 for the years ended December 31, 2019 and 2018, respectively.

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D. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. The Company's carrying amount and the fair value of financial assets and liabilities (including information for fair value hierarchy, but excluding financial instruments whose fair values approximate the carrying amounts and equity investments which cannot be estimated reliably in an active market) were as follows:

		December 31, 2019				
		Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	\$	491,203	491,203	-	-	491,203
Financial assets measured at amortized cost						
Cash and cash equivalents		589,358	-	-	-	-
Notes and accounts receivable (including related parties), net		838,251	-	-	-	-
Other financial assets – current		674,250	-	-	-	-
Guarantee deposits paid (recorded in other non-current assets)		5,742	-	-	-	-
		<u>\$ 2,598,804</u>	<u>491,203</u>	<u>-</u>	<u>-</u>	<u>491,203</u>
Financial liabilities measured at amortized cost						
Notes and accounts payable	\$	416,878	-	-	-	-
Guarantee deposit received		8,542	-	-	-	-
Lease liabilities (including recorded in other current liabilities)		78,609	-	-	-	-
		<u>\$ 504,029</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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	December 31, 2018				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss	\$ 486,555	486,555	-	-	486,555
Financial assets measured at amortized cost					
Cash and cash equivalents	1,178,768	-	-	-	-
Notes and accounts receivable (including related parties), net	749,536	-	-	-	-
Other financial assets – current	576,752	-	-	-	-
Guarantee deposits paid (recorded in other non-current assets)	6,286	-	-	-	-
	<u>\$ 2,997,897</u>	<u>486,555</u>	<u>-</u>	<u>-</u>	<u>486,555</u>
Financial liabilities measured at amortized cost					
Notes and accounts payable (including related parties), net	\$ 575,059	-	-	-	-
Guarantee deposit received	8,542	-	-	-	-
	<u>\$ 583,601</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(b) Valuation techniques for financial instruments that are measured at fair value

The Company valuation techniques and assumptions used for financial instruments of financial assets with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.

(c) There was no transfer of fair value level as of December 31, 2019 and 2018

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(19) Financial risk management

A. Overview

The Company is exposed to the following risks due to usage of financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures can be referred to note 6 (18).

B. Risk management framework

The Board of Directors has overall responsibility for developing and monitoring of the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors of the Company oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

C. Credit risk

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

Please refer to Note 6 (18) for the credit risk analyses of cash and cash equivalents, and accounts receivables. As of December 31, 2019 and 2018, no guarantees were outstanding.

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D. Liquidity risk

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

Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. The Company also monitors the level of expected cash flows on long-term and short-term trades. Company treasury invests surplus cash in time deposits with appropriate maturities or other short-term investments to ensure sufficient liquidity and meet its liabilities when due. As of December 31, 2019, the Company's unused credit line were amounted to \$150,750, respectively, which ensures compliance with the terms of loan agreements and cope with its operations and avoid liquidity risk.

E. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises currency risk, interest risk, and other price risk (such as risk related to equity instruments). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company controls the risks arising from fluctuation of market rate and price change of beneficiary certificates, all significant transactions are approved by the Board of Directors. The relevant financial operations are monitored by internal audit department.

The management regulations are as follows:

- (1) The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Company, primarily the US Dollar (USD), and the Chinese Yuan (RMB).

When a short-term imbalance of financial assets and liabilities in foreign currency occurred, the Company can maintain the net exposure risk at an acceptable level by purchasing or selling foreign currency at current rate.

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- (2) Every significant investment of the Company's portfolio is managed individually, and all the decisions on transactions are approved by the Board of Directors.

(20) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize owner value.

The strategy of capital structure management is based on the Company's industry scope, the future cost of industry, and products development blueprint. The Board of Directors settled the strategy to determine an applicable market share, and decide the operating capitals to make an overall plan for the various assets scales that the Company can develop continuously. Finally, the Board of Directors will estimate possible marginal utility, operating profit margin, and cash flows based on the competitiveness of the Company's products, and will consider different risk factors like business cycle fluctuation, product life cycle, to determine the appropriate capital structure for the Company.

The Board of Directors monitors the capital structure regularly, and considers the potential risk the Company may be involved in various capital structures.

There were no changes in the Company's approach to capital management during the year ended December 31, 2019.

The Company's debt-to-adjusted-capital ratio at the reporting date was as follows:

	December 31,	
	2019	2018
Total liabilities	<u><u>\$ 1,164,251</u></u>	<u><u>1,247,665</u></u>
Total equity	<u><u>\$ 4,052,665</u></u>	<u><u>4,199,170</u></u>
Debt-to-adjusted-capital ratio	<u><u>28.73%</u></u>	<u><u>29.71%</u></u>

(21) financing activities not affecting current cash flow

The Company's financing activities which did not affect the current cash flow in the year ended December 31, 2019 and 2018, were as follows:

C. Acquisition of right-of-use assets at leases, please refer to notes 6(8).

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D.Reconciliation of liabilities arising from financing activities were as follows:

	<u>Lease liabilities</u>
Opening balance, January 1, 2019	\$ -
Adjustments on initial application	89,863
Changes in cash flows from operating activities	
Interest paid	(1,176)
Changes in cash flows from financing activities	
Payments of lease liabilities	(11,254)
Changes in not affecting cash flows	
Interest expense	1,176
Ending Balance, December 31, 2019	<u><u>\$ 78,609</u></u>

7. Related-party Transactions

(1) Names and relationship with related parties

The followings are the Company's subsidiaries and the related parties which had transaction with the Company during the periods covered in the parent company only financial statements.

<u>Name of related parties</u>	<u>Relationship with the Company</u>
MCU Holdings Ltd. (MCU)	A subsidiary of the consolidated company
Holtek Semiconductor Holding (BVI) Ltd. (HOLTEK (BVI))	A subsidiary of the consolidated company
Sigmos Holdings Ltd. (Sigmos)	A subsidiary of the consolidated company
Kingtek Semiconductor Holding (BVI) Ltd.(Kingtek BVI)	A subsidiary of the consolidated company
Holtek Investment Co., Ltd. (Holtek Investment)	A subsidiary of the consolidated company
Best Health Electronics Corp. (Best Health)	A subsidiary of the consolidated company
Best Health Electronics HK Limited (Best Health HK)	A subsidiary of the consolidated company
Best Health Electronics (Dongguan) Corporation	A subsidiary of the consolidated company
Anchip Technology Corporation (Anchip)	A subsidiary of the consolidated company
Anchip Technology (Dongguan) Corporation	A subsidiary of the consolidated company
Best Power Electronics Cop.(Best Power)	A subsidiary of the consolidated company
Holtek Semiconductor (Xiamen) Inc. (Holtek Xiamen)	A subsidiary of the consolidated company
Holtek Semiconductor (China) Inc. (Holtek China)	A subsidiary of the consolidated company
Holtek Semiconductor (USA) Inc. (Holtek (USA))	A subsidiary of the consolidated company
Holtek Semiconductor (Suzhou) Inc. (Holtek Suzhou)	A subsidiary of the consolidated company
Holtek Semiconductor (INDIA) Private Ltd. (Holtek INDIA)	A subsidiary of the consolidated company
Best Solution Technology Inc. (Best Solution)	A subsidiary of the consolidated company

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Name of related parties	Relationship with the Company
Best Solution Electronics Inc. (Best Solution)	A subsidiary of the consolidated company
Best Solution Electronics (Dongguan) Inc.	A subsidiary of the consolidated company
Best Modules Corp. (Best Modules)	A subsidiary of the consolidated company
BestComm RF Electronics Inc. (BestComm)	A subsidiary of the consolidated company
BestComm RF Electronics (BVI) Inc. (BestComm BVI)	A subsidiary of the consolidated company
BestComm RF Electronics (Dongguan) Inc.	A subsidiary of the consolidated company
Crown Rich Technology Holding Ltd. (CROWN RICH)	An associate of the Company
Fine Chip Electronics Inc. (FINE CHIP)	An associate of the Company
ForIC Electronics Holding Ltd. (FORIC)	An associate of the Company
JXY Electronics Corporation (JXY)	An associate of the Company
New Wave Electronics Holding Ltd. (NEW WAVE)	An associate of the Company
Newtek Electronics Ltd. (NEWTEK)	An associate of the Company
Quanding Technology Holding Ltd. (QUANDING)	An associate of the Company
Santek Holdings Ltd. (SANTEK)	An associate of the Company
Truetek Technology Ltd. (TRUETEK)	An associate of the Company
Bestway Electronic Inc. (BESTWAY)	An associate of the Company
Signal Electronic Co., Ltd. (SIGNAL)	An associate of the Company
Tech Wave Ltd. (TECH WAVE)	An associate of the Company
ETEK technology company Ltd. (ETEK)	An associate of the Company
Gosan Technology Co., Ltd (GOSAN) (Note)	An associate of the Company
EST Technology Integration Corp. (EST)	An associate of the Company

Note : The Company's Subsidiary which is Holtek Investment sold all of the shares of GOSAN in May, 2019.

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(2) Significant related-party transactions

A. Sales

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

	For the year ended December 31,	
	2019	2018
HOLTEK China	\$ 586,707	-
HOLTEK(BVI)	405,302	784,925
SIGNAL and its subsidiary	339,689	512,531
Best Solution and its subsidiary	306,727	455,152
Others	<u>1,537,358</u>	<u>1,601,100</u>
	<u>\$ 3,175,783</u>	<u>3,353,708</u>

The company's sales transactions with Holtek China, Holtek Xiamen and Holtek Suzhou are indirect sales through third-party companies.

The Company will determine sales price by product type specification, and offer different discount according to the selling quantity. The credit terms for sales transactions for related parties ranged from 60 to 120 days. While the credit term for routine sales transactions, which are usually based on the experiences and the result form credit evaluation, can be varied from advance payment, T/T on demand, or 30 to 60 days on open account.

As for the years ended December 31, 2019 and 2018, the Company recognized unrealized gross profits of sales to associates amounting to \$213,730 and \$172,043 respectively.

The receivables from related parties were as follows:

	December 31,	
	2019	2018
HOLTEK(BVI)	\$ -	220,903
Holtek China	408,893	-
Holtek Suzhou	119,138	-
Holtek Xiamen	107,824	-
SIGNAL and its subsidiary	38,938	96,514
Best Solution and its subsidiary	9,529	93,263
Others	<u>87,956</u>	<u>255,857</u>
	<u>\$ 772,278</u>	<u>666,537</u>

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B. Purchases

The amounts of significant purchases by the Company from related parties were as follows:

	For the year ended December 31,	
	2019	2018
Subsidiaries	<u><u>\$ 6,712</u></u>	<u><u>9,447</u></u>

The terms and pricing of purchase transactions with related parties were not significantly different from those offered by other vendors.

The Company has paid to the related parties for consumables, miscellaneous purchase, and sales service of integrated circuit as follows

	For the year ended December 31,	
	2019	2018
Subsidiaries	<u>\$ 29,278</u>	<u>15,584</u>
Associates	<u>-</u>	<u>13</u>
	<u><u>\$ 29,278</u></u>	<u><u>15,597</u></u>

The payables to related parties were as follows:

	December 31,	
	2019	2018
Accounts payable to related parties -Subsidiaries	<u>\$ 10,622</u>	<u>4,816</u>
Other account payable-Associates (recorded in Other current liabilities	<u>-</u>	<u>17,630</u>
	<u><u>\$ 10,622</u></u>	<u><u>22,446</u></u>

C. Other transactions

- (a) As of December 31, 2019 and 2018, the Company recognized unrealized gross profits of selling machinery and equipment to Holtek Semiconductor (Suzhou) Inc. and Holtek Semiconductor (China) Inc., amounted to \$0 and \$64 respectively.
- (b) The group's revenue from related parties about the human support service charge and disbursement have amounting to \$2,412 and \$0 for the year ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the receivables classified under abovementioned other financial assets—current have amounting to \$11,968 and \$12,436, respectively.

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(3) Transactions with key management personnel

Key management personnel compensation comprised:

	For the year ended December 31,	
	2019	2018
Short-term employee benefits	\$ 21,603	28,073
Post-employment benefits	432	432
	\$ 22,035	28,505

8. Pledged Assets

Assets	Purpose of Pledged	December 31,	
		2019	2018
Time deposits (recorded in other financial assets — current)	Guarantee deposits of customs duty	\$ 5,118	3,612

9. Significant Commitments and Contingencies

The Company has signed the contract of technical authorization with ARM Ltd. When the Company sells products which apply the promised technique, it has to pay the royalty with certain amount according to the contract.

10. Losses Due to Major Disasters: None.

11. Significant Subsequent Events: None.

12. Other

The following is the summary statement of current-period employee benefits, depreciation, and amortization expenses by function:

By item	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Classified as operating costs	Classified as operating expenses	Total	Classified as operating costs	Classified as operating expenses	Total
Employee benefits						
Salaries	28,974	506,969	535,943	30,468	569,315	599,783
Labor and health insurance	2,345	35,215	37,560	2,227	34,307	36,534
Directors	1,495	22,222	23,717	1,595	22,615	24,210
Pensions	-	12,019	12,019	-	14,138	14,138
Others	1,430	16,915	18,375	1,430	16,942	18,372
Depreciation	3,227	46,861	50,088	2,753	30,494	33,247
Amortization	16	72,593	72,609	-	54,186	54,186

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The number of employees of the Company at the end of the year 2019 and 2018 was 415 and 407, respectively, which is inclusive the number of directors who were not holding as a position of employee was 4 and 4, respectively.

The amount of employees and employee benefits for the years ended December 31, 2019 and 2018, was as follows:

	For the year ended December 31,	
	2019	2018
The number of employees	415	407
The number of directors who were not holding as a position of employee	4	4
The Average of employee benefits	1,498	1,684
The Average of Salaries	1,304	1,488
The Average of salary adjust rate	(12)%	

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13. Other disclosures

(1) Information on significant transactions

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Company:

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	FSITC Taiwan Money Market	-	Financial assets measured at fair value through profit or loss — current	10,966	168,477	-	168,477	
The Company	UPAMC James Bond Money Market Fund	-	Financial assets measured at fair value through profit or loss — current	15,616	262,000	-	262,000	
The Company	Yuanta De-Bao Money Market Fund	-	Financial assets measured at fair value through profit or loss — current	5,034	60,726	-	60,726	
Holtek Semiconductor Holding (BVI) Ltd.	Unitech Capital Inc.	-	Equity-investments measured at fair value through other comprehensive income-non current	2,500	68,627	5.00%	68,627	
Holtek Investment Co., Ltd	Shieh Yong Investment Co., Ltd.	-	Equity-investments measured at fair value through other comprehensive income-non current	23,124	206,714	3.03%	206,714	
Holtek Investment Co., Ltd	Gingy Technology Co.	-	Equity-investments measured at fair value through other comprehensive income-non current	3,330	26,964	12.33%	26,964	

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iv. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None

v. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

vi. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

vii. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Holtek (Suzhou)	Subsidiary of the Company	Sales	(206,378)	(5)%	Open account 120 days	No significant difference	No significant difference	119,138	14%	Note
Holtek (Suzhou)	The Company	Parent company of Holtek (Suzhou)	Purchases	206,378	100%	Open account 120 days	No significant difference	No significant difference	(119,138)	(87)%	Note
The Company	Holtek BVI	Subsidiary of the Company	Sales	(405,302)	(10)%	Open account 120 days	No significant difference	No significant difference	-	- %	Note
Holtek BVI	The Company	Parent company of Holtek BVI	Purchases	405,302	100%	Open account 120 days	No significant difference	No significant difference	-	- %	Note
The Company	Holtek (Xiamen)	Subsidiary of the Company	Sales	(180,497)	(4)%	Open account 120 days	No significant difference	No significant difference	107,824	13%	Note
Holtek (Xiamen)	The Company	Parent company of Holtek (Xiamen)	Purchases	180,497	78%	Open account 120 days	No significant difference	No significant difference	(107,824)	(86)%	Note
The Company	Santek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(103,903)	(3)%	Open account 60 days	No significant difference	No significant difference	6,402	1%	
Santek	The Company	Investee that evaluate Santek under equity method	Purchases	103,903	55%	Open account 60 days	No significant difference	No significant difference	(6,402)	(17)%	
The Company	Signal	Investee of the Company's subsidiary evaluated under the equity method	Sales	(339,689)	(8)%	Open account 60 days	No significant difference	No significant difference	38,938	5%	
Signal	The Company	Investee that evaluate Signal under equity method	Purchases	339,689	41%	Open account 60 days	No significant difference	No significant difference	(38,938)	(29)%	
The Company	Newtek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(185,673)	(5)%	Open account 60 days	No significant difference	No significant difference	5,938	1%	
Newtek	The Company	Investee that evaluate Newtek under equity method	Purchases	185,673	53%	Open account 60 days	No significant difference	No significant difference	(5,938)	(12)%	
The Company	EST	Investee of the Company's subsidiary evaluated under the equity method	Sales	(153,496)	(4)%	Open account 60 days	No significant difference	No significant difference	31,846	4%	
EST	The Company	Investee that evaluate EST under equity method	Purchases	153,496	8%	Open account 60 days	No significant difference	No significant difference	(31,846)	(18)%	
The Company	Best Solution	Subsidiary of the Company	Sales	(306,727)	(8)%	Open account 60 days	No significant difference	No significant difference	9,529	1%	Note

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Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
Best Solution Technology Inc.	Technology Inc. The Company	Parent company of Best Solution Technology Inc.	Purchases	306,727	100%	Open account 60 days	No significant difference	No significant difference	(9,529)	(100)%	Note
The Company	New Wave	Investee of the Company's subsidiary evaluated under the equity method	Sales	(129,484)	(3)%	Open account 60 days	No significant difference	No significant difference	-	- %	
New Wave	The Company	Investee that evaluate New Wave under equity method	Purchases	129,484	32%	Open account 60 days	No significant difference	No significant difference	-	- %	
The Company	Truetek	Investee of the Company's subsidiary evaluated under the equity method	Sales	(157,391)	(4)%	Open account 60 days	No significant difference	No significant difference	16,352	2%	
Truetek	The Company	Investee that evaluate Truetek under equity method	Purchases	157,391	42%	Open account 60 days	No significant difference	No significant difference	(16,352)	(20)%	
The Company	Crown Rich	Investee of the Company's subsidiary evaluated under the equity method	Sales	(108,147)	(3)%	Open account 60 days	No significant difference	No significant difference	2,890	- %	
Crown Rich	The Company	Investee that evaluate Crown Rich under equity method	Purchases	108,147	17%	Open account 60 days	No significant difference	No significant difference	(2,890)	(2)%	
The Company	Holtek (China)	Subsidiary of the Company	Sales	(586,707)	(14)%	Open account 120 days	No significant difference	No significant difference	408,893	49%	Note
Holtek (China)	The Company	Parent company of Holtek (China)	Purchases	586,707	84%	Open account 120 days	No significant difference	No significant difference	(408,893)	(91)%	Note

Note : The amounts of the transaction and the ending balance had been offset in the consolidated financial statements..

viii. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Ending balance	Turnover days	Overdue		Amounts received in subsequent period	Allowance forbad debts
					Amount	Action taken		
The Company	Holtek China	Subsidiary	408,893 Note2	2.87	-	Collection on demand	107,354 (Note1)	-
The Company	Holtek Suzhou	Subsidiary	119,138 Note2	3.46	-	Collection on demand	(Note1)	-
The Company	Holtek Xiamen	Subsidiary	107,824 Note2	3.35	-	Collection on demand	(Note1)	-

Note1 : The amount is collected by January 17, 2020.

Note2 : The amounts of the transaction and the ending balance had been offset in the consolidated financial statements.

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ix. Trading in derivative instruments: None.

(2) Information on investees:

The following is the information on investees for the year 2019 (excluding information on investees in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value			
The Company	Holtek Semiconductor Holding (BVI) Ltd.	B.V.I.	Overseas investment activities	475,831	475,831	15,253	100.00%	608,165	94,549	94,549 Note2	The Company's Subsidiary
The Company	Kingtek Semiconductor Holding (BVI) Ltd.	B.V.I.	Overseas investment activities	69,542	69,542	2,000	100.00%	127,433	11,287	11,287 Note2	The Company's Subsidiary
The Company	Sigmos Holdings Ltd.	B.V.I.	Overseas investment activities	6,898	6,898	200	100.00%	23,030	798	798 Note2	The Company's Subsidiary
Sigmos Holdings Ltd.	Holtek Semiconductor (USA) Inc.	California, USA	Sales of integrated circuits and technical services	6,898	6,898	2,000	100.00%	23,030	798	Note1、2	The Company's second-tier subsidiary
The Company	MCU Holdings Ltd.	B.V.I.	Overseas investment activities	16,333	16,333	500	100.00%	710,248	73,761	73,761 Note2	The Company's Subsidiary
MCU Holdings Ltd.	ForIC Electronics Holding Ltd.	B.V.I.	Overseas investment activities	9,733	9,733	300	40.00%	20,877	422	Note1	The Subsidiary's investee company by equity method
ForIC Electronics Holding Ltd.	E-Micro Technology Holding Ltd.(BVI)	B.V.I.	Overseas investment activities	9,473	9,473	300	100.00%	8,578	437	Note1	The Subsidiary's investee company by equity method invest subsidiary
ForIC Electronics Holding Ltd.	ForIC Electronics HK Limited	Hong Kong	Sales of integrated circuits and technical services	866	-	200	100.00%	1,454	615	Note1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Truetek Technology Ltd.	B.V.I.	Overseas investment activities	16,306	16,306	920	40.00%	51,962	24,314	Note1	The Subsidiary's investee company by equity method
Truetek Technology Ltd.	Truetek Technology HK Limited	Hong Kong	Sales of integrated circuits and technical services	8,662	-	2,000	100.00%	11,837	3,262	Note1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Quanding Technology Holding Ltd.	B.V.I.	Overseas investment activities	1,868	1,868	60	40.00%	23,834	15,003	Note1	The Subsidiary's investee company by equity method
Quanding Technology Holding Ltd.	Quanding Technology HK Limited.	Hong Kong	Sales of integrated circuits and technical services	2,137	-	500	100.00%	2,049	(90)	Note1	The Subsidiary's investee company by equity method invest subsidiary

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Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value			
MCU Holdings Ltd.	Santek Holdings Ltd.	B.V.I.	Overseas investment activities	3,758	3,758	180	40.00%	24,392	23,555	Note 1	The Subsidiary's investee company by equity method
Santek Holdings Ltd.	Santek Electronics HK Limited	Hong Kong	Sales of integrated circuits and technical services	8,662	-	2,000	100.00%	8,702	93	Note 1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Bestway Electronic Inc.	B.V.I.	Overseas investment activities	3,470	3,470	800	40.00%	22,286	1,130	Note 1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	New Wave Electronics Holding Ltd.	B.V.I.	Overseas investment activities	24,784	24,784	800	40.00%	67,517	26,053	Note 1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Newtek Electronics Ltd.	B.V.I.	Overseas investment activities	8,105	8,105	1,501	40.61%	62,314	16,769	Note 1	The Subsidiary's investee company by equity method
Newtek Electronics Ltd.	Newtek Electronics HK Limited	Hong Kong	Sales of integrated circuits and technical services	8,662	-	2,000	100.00%	12,895	43,673	Note 1	The Subsidiary's investee company by equity method invest subsidiary
MCU Holdings Ltd.	Crown Rich Technology Holding Ltd.	B.V.I.	Overseas investment activities	2,641	2,641	80	40.00%	65,018	36,973	Note 1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Fine Chip Electronics Inc.	B.V.I.	Overseas investment activities	7,039	7,039	1	40.00%	1,850	(1,107)	Note 1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Anchip Technology Corporation	B.V.I.	Overseas investment activities	2,937	2,937	1	60.00%	4,691	3,891	Note 1,2	The Company's second-tier subsidiary
MCU Holdings Ltd.	Tech Wave Ltd.	Hong Kong	Sales of integrated circuits and technical services	9,907	9,907	2,400	40.00%	18,254	2,930	Note 1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	ETEK technology company Ltd.	Hong Kong	Sales of integrated circuits and technical services	5,427	5,427	1,275	33.33%	7,884	11,987	Note 1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	JXY Electronics Corporation	B.V.I.	Overseas investment activities	6,404	3,664	1	40.00%	6,253	1,383	Note 1	The Subsidiary's investee company by equity method
MCU Holdings Ltd.	Best Health Electronics Corp.	B.V.I.	Overseas investment activities	20,965	20,965	5	80.00%	24,555	5,195	Note 1,2	The Company's second-tier subsidiary
Best Health Electronics Corp.	Best Health Electronics HK Limited	Hong Kong	Sales of integrated circuits and technical services	1,299	-	300	100.00%	3,069	1,796	Note 1、2	The Company's second-tier subsidiary
MCU Holdings Ltd.	Best Power Electronics Corporation	B.V.I.	Overseas investment activities	8,844	8,844	2	100.00%	8,746	149	Note 1、2	The Company's second-tier subsidiary

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Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value			
The Company	Holtek Semiconductor (India) Private Limited	INDIA	Sales of integrated circuits and technical services	3	3	6	0.10%	1	(121)	- Note 2	The Company's second-tier subsidiary
The Company	Holtek Investment Co., Ltd.	Hsinchu City	Domestic investment activities	429,826	429,826	42,983	100.00%	507,733	7,625	7,625 Note2	The Company's Subsidiary
Holtek Investment Co., Ltd.	Signal Electronic Co., Ltd.	Taipei City	Sales of integrated circuits and technical services	95,941	95,941	7,880	40.00%	113,968	20,934	Note1	The Subsidiary's investee company by equity method
Signal Electronic Co. Ltd.	A-ONE Wireless Technology Corp.	B.V.I.	Overseas investment activities	59,204	59,204	2,000	100.00%	69,413	4,985	Note1	The Subsidiary's investee company by equity method invest subsidiary
Signal Electronic Co. Ltd.	Innotek Electronics Inc.	B.V.I.	Overseas investment activities	43,810	43,810	800	100.00%	46,057	6,388	Note1	The Subsidiary's investee company by equity method invest subsidiary
Signal Electronic Co. Ltd.	Best Solution Technology Inc.	Taipei City	Sales of integrated circuits and technical services	7,375	7,375	738	36.88%	14,254	10,644	Note1	The Company's second-tier subsidiary
Holtek Investment Co., Ltd.	EST Technology Integration Corp.	New Taipei City	Sales of integrated circuits and technical services	37,500	37,500	5,865	22.39%	70,768	14,740	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	Gosan Technology Co., Ltd	New Taipei City	Sales of integrated circuits and technical services	-	2,350	-	-%	-	1,158	Note1,3	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	Best Solution Technology Inc.	Taipei City	Sales of integrated circuits and technical services	8,000	8,000	800	40.00%	15,462	10,644	Note1,2	The Company's second-tier subsidiary
Best Solution Technology Inc.	Best Solution Electronics Inc.	B.V.I.	Overseas investment activities	6,140	6,140	200	100.00%	26,748	3,625	Note1,2	The Company's third-tier subsidiary
Holtek Investment Co., Ltd.	TANGENT Microelectromechanics Corp.	Hsinchu City	Electronic component manufacturing, electronic materials wholesale and retail, telecommunication equipment wholesale and retail, intellectual property rights, information service and international trade	10,002	10,002	380	20.00%	-	156	Note1	The Subsidiary's investee company by equity method
Holtek Investment Co., Ltd.	BestComm RF Electronics Inc.	Hsinchu City	Sales of integrated circuits and technical services	40,000	40,000	4,000	100.00%	13,787	(7,824)	Note1,2	The Company's second-tier subsidiary
BestComm RF Electronics Inc.	BestComm RF Electronics (BVI) Inc.	B.V.I.	Overseas investment activities	14,054	14,054	30	100.00%	6,189	(4,548)	Note1,2	The Company's third-tier subsidiary

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Investor Company	Investee Company	Location	Main Businesses and Products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value			
Holtek Investment Co., Ltd.	Best Modules Corp.	Hsinchu City	Electronic component manufacturing, electronic materials wholesale and retail, retail trade not in stores or stalls, and international trade	10,000	10,000	1,000	100.00%	9,020	(875)	Note1,2	The Company's second-tier subsidiary
Holtek Investment Co., Ltd.	Holtek Semiconductor (India) Private Limited	INDIA	Sales of integrated circuits and technical services	2,945	2,945	6,479	99.90%	1,482	(121)	Note1,2	The Company's second-tier subsidiary

Note1 : The share of profits/losses of the investee company is already included in the share of profits/losses of the investor company.

Note2 : The amounts of the transaction and the ending balance had been offset in the consolidated financial statements.

Note3 : The Company sold all of the shares of GOSAN in May, 2019.

(3) Information on investment in mainland China:

i. The names of investees in Mainland China, the main businesses and products, and other information:

Name of investee	Main businesses and products	Total amount of capital surplus	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Highest percentage of ownership during the year	Gains (losses) on investments	Book value	Accumulated remittance of earnings in current period
					Out-flow	Inflow						
Holtek Semiconductor (Xiamen) Inc	Sales of integrated circuits and technical services	113,551	(Note1)	101,027	-	-	101,027	10,539	100%	10,539 (Note5)	119,164	-
Holtek Semiconductor (China) Inc.	Sales of integrated circuits and technical services	292,423	(Note1)	272,221	-	-	272,221	84,616	100%	84,616 (Note 5)	396,894	-
Bestway Electronics (Shenzhen) Inc.	Sales of integrated circuits and technical services	6,769	(Note1)	3,383	-	-	3,383	(3,195)	40%	(1,278)	14,448	-
Santek Electronics (Xiamen) Ltd.	Sales of integrated circuits and technical services	6,398	(Note1)	2,506	-	-	2,506	(5,947)	40%	(2,379) (Note 5)	12,981	-
New Wave Electronics (Shenzhen) Ltd.	Sales of integrated circuits and technical services	9,287	(Note1)	3,928	-	-	3,928	21,577	40%	8,631 (Note 5)	42,334	-
Forle Electronics (Beijing) Ltd.	Sales of integrated circuits and technical services	19,361	(Note1)	3,601	-	-	3,601	(6,479)	40%	(2,591)	9,041	-
E-Micro Technology (Qingdao) Ltd.	Sales of integrated circuits and technical services	6,315	(Note1)	2,634	-	-	2,634	(83)	40%	(33)	6,295	-
Newtek Electronics (Shenzhen) Ltd	Sales of integrated circuits and technical services	6,699	(Note1)	2,647	-	-	2,647	3,537	40.61%	1,436 (Note 5)	31,685	-
Truetek Technology (Shanghai) Ltd.	Sales of integrated circuits and technical services	30,293	(Note1)	3,911	-	-	3,911	(3,396)	40%	(1,358)	43,287	-

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Name of investee	Main businesses and products	Total amount of capital surplus	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Highest percentage of ownership during the year	Gains (losses) on investments	Book value	Accumulated remittance of earnings in current period
					Out-flow	Inflow						
Crown Rich Technology (Shenzhen) Ltd.	Sales of integrated circuits and technical services	10,443	(Note1)	1,964	-	-	1,964	14,163	40%	5,665 (Note 5)	70,189	-
Quanding Technology (Suzhou) Ltd.	Sales of integrated circuits and technical services	3,736	(Note1)	1,600	-	-	1,600	4,980	40%	1,992	23,064	-
Holtek Semiconductor (Suzhou) Inc.	Sales of integrated circuits and technical services	69,712	(Note1)	69,712	-	-	69,712	11,288	100%	11,288 (Note 5)	127,394	-
Fine Chip Electronics (Shanghai) Inc.	Sales of integrated circuits and technical services	7,541	(Note1)	-	-	-	-	(350)	40%	(140)	2,359	-
Anchip Technology (Dongguan) Corporation	Sales of integrated circuits and technical services	1,521	(Note1)	-	-	-	-	980	60%	588	1,615	-
JXY Electronics (Shenzhen) Corporation	Sales of integrated circuits and technical services	6,843	(Note1)	-	-	-	-	1,427	40%	571	5,588	-
Best Health Electronics (Dongguan) Corporation	Sales of integrated circuits and technical services	23,057	(Note1)	-	-	-	-	(5,118)	80%	(4,094)	9,644	-
BestComm RF Electronics (Dongguan) Inc.	Sales of integrated circuits and technical services	9,214	(Note1)	-	-	-	-	(5,246)	100%	(5,246) (Note 5)	1,055	-
Best Solution Technology (Dongguan) Inc.	Sales of integrated circuits and technical services	4,284	(Note1)	-	-	-	-	(1,823)	54.75%	(998) (Note 5)	2,462	-

ii. Limit of investments in Mainland China:

Accumulated Investments in Mainland China as of December 31, 2019 (Note2)	Investment Amounts Authorized by Investment Commission, MOEA (Note3)	Maximum Limit of Investment (Note4)
471,089 (US\$15,111 in thousands)	524,934 (US\$17,539 in thousands)	2,431,599

Note1 : Investment in companies in Mainland China through the existing companies in the third regions.

Note2 : Accumulated investments in Mainland China are calculated in NTD using exchange rate on the remitting date.

Note3 : Investment amounts authorized by Investment Commission, MOEA are calculated in NTD using exchange rate on the reporting date. Including accumulated remittances from Taiwan for \$450,555 (US\$15,054 in thousands); and from the third regions for \$74,379 (US\$2,485 in thousands)

Note4: According to "Principle of investment or Technical Cooperation in Mainland China", the Company's accumulated investments in Mainland China do not exceed the maximum limit of investment. Net value \$4,052,665 x 60% = \$2,431,599.

Note5 : The financial statements of the Company were audited by the auditors.

iii. Significant transactions

The significant intercompany transactions with the subsidiaries in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in the Company please refer to *Information on significant transactions* for further information.

14. Segment Information

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

Holtek Semiconductor Inc.

Chairman: Wu, Chi-Yung