

Alchip Technologies, Limited and Subsidiaries

Consolidated Financial Statements for the
Years Ended December 31, 2019 and 2018
and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Alchip Technologies, Limited:

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Impairment Assessment of Equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

March 6, 2020

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

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

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

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

Code	ASSETS	December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
	CURRENT ASSETS				
1100	Cash and Cash Equivalents (Note 6)	\$ 79,295	46	\$ 37,184	31
1120	Financial Assets at Fair Value Through Other Comprehensive Income (Note 7)	3,443	2	680	1
1136	Financial Assets at Amortized Cost (Note 8)	-	-	19,585	16
1170	Accounts Receivable, Net (Note 10)	29,957	17	21,837	18
1200	Other Receivables	742	-	720	1
130X	Inventories (Note 11)	19,399	11	9,158	8
1410	Prepayments (Note 16)	2,764	2	4,067	3
1470	Other Current Assets	<u>1,433</u>	<u>1</u>	<u>656</u>	<u>-</u>
11XX	Total Current Assets	<u>137,033</u>	<u>79</u>	<u>93,887</u>	<u>78</u>
	NON-CURRENT ASSETS				
1517	Financial Assets at Fair Value Through Other Comprehensive Income (Note 7)	11,820	7	10,380	9
1600	Property, Plants, and Equipment (Note 13)	12,989	7	10,315	8
1755	Right-of-use Asset(Note 14)	3,672	2	-	-
1780	Intangible Assets (Note 15)	7,390	4	4,778	4
1840	Deferred Tax Assets (Note 25)	881	1	1,136	1
1900	Other Non-current Assets	<u>500</u>	<u>-</u>	<u>532</u>	<u>-</u>
15XX	Total Non-current Assets	<u>37,252</u>	<u>21</u>	<u>27,141</u>	<u>22</u>
1XXX	TOTAL ASSETS	<u>\$ 174,285</u>	<u>100</u>	<u>\$ 121,028</u>	<u>100</u>
	LIABILITIES AND EQUITY				
	CURRENT LIABILITIES				
2100	Short-term Borrowing (Note 17)	\$ 517	-	\$ -	-
2130	Contract Liabilities(Note23)	25,850	15	10,320	8
2170	Accounts Payable	13,844	8	4,419	4
2200	Other Payables (Note 18)	15,840	9	6,665	5
2230	Current Tax Liabilities (Note 25)	1,500	1	2,099	2
2280	Lease Liabilities(Note 14)	1,257	1	-	-
2313	Deferred Revenue (Note 22)	1,466	1	1,459	1
2399	Other Current Liabilities	<u>288</u>	<u>-</u>	<u>61</u>	<u>-</u>
21XX	Total Current Liabilities	<u>60,562</u>	<u>35</u>	<u>25,023</u>	<u>20</u>
	NON-CURRENT LIABILITIES				
2570	Deferred Tax Liabilities (Note 25)	407	-	325	-
2280	Lease Liabilities(Note 14)	2,458	1	-	-
2630	Deferred Revenue	<u>726</u>	<u>1</u>	<u>584</u>	<u>1</u>
25XX	Total Non-current Liabilities	<u>3,591</u>	<u>2</u>	<u>909</u>	<u>1</u>
2XXX	Total Liabilities	<u>64,153</u>	<u>37</u>	<u>25,932</u>	<u>21</u>
	EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 21)				
3110	Share Capital	<u>19,034</u>	<u>11</u>	<u>18,761</u>	<u>15</u>
3200	Capital Surplus	<u>49,324</u>	<u>28</u>	<u>46,788</u>	<u>39</u>
	Retained Earnings				
3320	Special Reserve	2,799	2	2,799	2
3350	Unappropriated Earnings	<u>38,183</u>	<u>22</u>	<u>27,074</u>	<u>23</u>
3300	Total Retained Earnings	<u>40,982</u>	<u>24</u>	<u>29,873</u>	<u>25</u>
3400	Other Equity	<u>792</u>	<u>-</u>	<u>(326)</u>	<u>-</u>
3XXX	Total Equity	<u>110,132</u>	<u>63</u>	<u>95,096</u>	<u>79</u>
	TOTAL	<u>\$ 174,285</u>	<u>100</u>	<u>\$ 121,028</u>	<u>100</u>

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

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

Code		2019			2018		
		US\$	NT\$	%	US\$	NT\$	%
4000	OPERATING REVENUE (Note 23)	\$ 140,138	\$ 4,331,956	100	\$ 114,454	\$ 3,450,678	100
5000	OPERATING COST (Notes 12 and 24)	<u>88,021</u>	<u>2,720,914</u>	<u>63</u>	<u>71,619</u>	<u>2,159,237</u>	<u>63</u>
5900	GROSS PROFIT	<u>52,117</u>	<u>1,611,042</u>	<u>37</u>	<u>42,835</u>	<u>1,291,441</u>	<u>37</u>
	OPERATING EXPENSES (Note 24)						
6100	Selling and Marketing Expenses	4,468	138,114	3	4,705	141,839	4
6200	General and Administrative Expenses	10,258	317,082	7	6,875	207,308	6
6300	Research and Development Expenses	22,183	68,5741	16	20,577	620,393	18
6450	Expected Credit Losses						
	Impairment loss(reversed) on trade receivables	<u>1,204</u>	<u>37,227</u>	<u>1</u>	<u>(1)</u>	<u>(24)</u>	<u>-</u>
6000	Total Operating Expenses	<u>38,113</u>	<u>1,178,164</u>	<u>27</u>	<u>32,157</u>	<u>969,516</u>	<u>28</u>
6900	INCOME FROM OPERATIONS	<u>14,004</u>	<u>432,878</u>	<u>10</u>	<u>10,678</u>	<u>321,925</u>	<u>9</u>
	NON-OPERATING INCOME AND EXPENSES (Note 24)						
7010	Other Income	3,332	103,014	2	2,109	63,587	2
7020	Other Gains and Losses	66	2,030	-	(217)	(6,544)	-
7050	Finance Costs	(146)	(4,516)	-	(30)	(891)	-
7055	Expected Credit Losses	(263)	(8,123)	-	(1,435)	(43,272)	(1)
7000	Total Non-operating Income and Expenses	<u>2,989</u>	<u>92,405</u>	<u>2</u>	<u>427</u>	<u>12,880</u>	<u>1</u>
7900	INCOME BEFORE INCOME TAX	16,993	525,283	12	11,105	334,805	10
7950	INCOME TAX EXPENSES (Note 25)	<u>2,969</u>	<u>91,771</u>	<u>2</u>	<u>2,569</u>	<u>77,448</u>	<u>2</u>
8200	NET INCOME	<u>14,024</u>	<u>433,512</u>	<u>10</u>	<u>8,536</u>	<u>257,357</u>	<u>8</u>
	OTHER COMPREHENSIVE INCOME (LOSS)						
8310	Items that May not be Reclassified Subsequently to Profit or Loss						
8341	Exchange Differences Arising on Translation to the Presentation Currency	-	(83,190)	(2)	-	93,288	3
8360	Items that May be Reclassified Subsequently to Profit or Loss						
8361	Exchange Differences Arising on Translating Foreign Operations (Note 4)	32	975	-	32	970	-
8367	Unrealized Loss on investments in Debt Instrument at Fair Value Through Other Comprehensive Income	<u>1,086</u>	<u>33,576</u>	<u>1</u>	<u>(408)</u>	<u>(12,322)</u>	<u>(1)</u>
8300	Other Comprehensive Income (Loss) for the Year, Net of Income Tax	<u>1,118</u>	<u>(48,639)</u>	<u>(1)</u>	<u>(376)</u>	<u>81,936</u>	<u>2</u>
8500	TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 15,142</u>	<u>\$ 384,873</u>	<u>9</u>	<u>\$ 8,160</u>	<u>\$ 339,293</u>	<u>10</u>
	NET INCOME (LOSS) ATTRIBUTABLE TO						
8610	Shareholders of the Company	<u>\$ 14,024</u>	<u>\$ 433,512</u>	<u>10</u>	<u>\$ 8,536</u>	<u>\$ 257,357</u>	<u>7</u>
	TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO						
8710	Shareholders of the Company	<u>\$ 15,142</u>	<u>\$ 384,873</u>	<u>9</u>	<u>\$ 8,160</u>	<u>\$ 339,293</u>	<u>10</u>
	EARINGS PER SHARE (Note 26)						
9710	Basic Earnings per Share	<u>\$ 0.23</u>	<u>\$ 7.20</u>		<u>\$ 0.14</u>	<u>\$ 4.22</u>	
9810	Diluted Earnings per Share	<u>\$ 0.22</u>	<u>\$ 6.89</u>		<u>\$ 0.13</u>	<u>\$ 4.03</u>	

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

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

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

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

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

Code		Capital Surplus					Retained Earnings			Other Equity			Treasury Shares	Total Equity
		Share Capital	Share Premium	Share Options	Treasury Shares	Total	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain(Loss) on Financial Assets at Fair Value Through Other Comprehensive Income		
A1	BALANCE, JANUARY 1, 2018	\$ 19,129	\$ 43,795	\$ 1,688	\$ 199	\$ 45,682	\$ 2,799	\$ 24,021	\$ 26,820	(\$ 267)	(\$ 153)	\$ -	\$ -	\$ 91,211
A3	Effects of Retrospective Application	-	-	-	-	-	-	(443)	(443)	-	153	317	-	27
A5	Adjusted Balance ,January 1, 2018	19,129	43,795	1,688	199	45,682	2,799	23,578	26,377	(267)	-	317	-	91,238
B5	Appropriation of 2017 Earnings Cash Dividends	-	-	-	-	-	-	(2,135)	(2,135)	-	-	-	-	(2,135)
N1	Share-based Compensation	-	-	1,581	-	1,581	-	-	-	-	-	-	-	1,581
K1	Issue of Ordinary Shares Under the Employee Share Options	236	1,831	(691)	-	1,140	-	-	-	-	-	-	-	1,376
L1	Buy-back of Treasury Shares	-	-	-	-	-	-	-	-	-	-	-	(5,124)	(5,124)
L3	Cancellation of Treasury Shares	(604)	(1,416)	-	(199)	(1,615)	-	(2,905)	(2,905)	-	-	-	5,124	-
D1	Net Income in 2018	-	-	-	-	-	-	8,536	23,536	23,337	-	-	-	8,536
D3	Other Comprehensive Income (Loss) for the Year Ended December 31, 2018	-	-	-	-	-	-	-	-	32	-	(408)	-	(376)
D5	Total Comprehensive Income (Loss) for the Year Ended December 31, 2018	-	-	-	-	-	-	8,536	8,536	32	-	(408)	-	8,160
Z1	BALANCE, DECEMBER 31, 2018	18,761	44,210	2,578	-	46,788	2,799	27,074	29,873	(235)	-	(91)	-	95,096
B5	Appropriation of 2018 Earnings Cash Dividends	-	-	-	-	-	-	(2,915)	(2,915)	-	-	-	-	(2,915)
N1	Share-based Compensation	-	-	1,711	-	1,711	-	-	-	-	-	-	-	1,711
K1	Issue of Ordinary Shares Under the Employee Share Options	273	1,418	(593)	-	825	-	-	-	-	-	-	-	1,098
D1	Net Income in 2019	-	-	-	-	-	-	14,024	14,024	-	-	-	-	14,024
D3	Other Comprehensive Income (Loss) for the Year Ended December 31, 2019	-	-	-	-	-	-	-	-	32	-	1,086	-	1,118
D5	Total Comprehensive Income (Loss) for the Year Ended December 31, 2019	-	-	-	-	-	-	14,024	14,024	32	-	1,086	-	15,142
Z1	BALANCE, DECEMBER 31, 2019	<u>\$ 19,034</u>	<u>\$ 45,628</u>	<u>\$ 3,696</u>	<u>\$ -</u>	<u>\$ 49,324</u>	<u>\$ 2,799</u>	<u>\$ 38,183</u>	<u>\$ 40,982</u>	<u>(\$ 203)</u>	<u>\$ -</u>	<u>\$ 995</u>	<u>\$ -</u>	<u>\$ 110,132</u>

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

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

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

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

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

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

1. GENERAL INFORMATION

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

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

2. APPROVAL OF STATEMENTS

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

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

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

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

IFRS 16 "Leases"

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

Definition of Lease

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

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

The Company as Lessee

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

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

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

The Company also applies the following practical expedients:

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

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

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

The Company as Lessor

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

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

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

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

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

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

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

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

Amendments to IFRS 3 “Definition of a Business”

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

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

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB.
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current	January 1, 2022

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Statement of Compliance

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

Basics of Preparation

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

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

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

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

Classification of Current and Non-current Assets and Liabilities

Current Assets Include:

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

Current Liabilities Include:

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

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

Basis of Consolidation

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

Foreign Currencies

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

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

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

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

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

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

Inventories

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

Property, Plants, and Equipment

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

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

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

Intangible Assets

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

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

Impairment of Tangible and Intangible Assets

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

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

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

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

Financial Instruments

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

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

Financial Assets

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

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

1) Financial assets at amortized cost

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

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

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

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

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

2) Investments in debt instrument at FVTOCI

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

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

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

Impairment of financial assets

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

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

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

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

Revenue Recognition

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

a. Revenue from sales of goods

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

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

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

Leases

2019

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

a. The Company as the lessor

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

b. The Company as the lessee

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

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

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

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

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

2018

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

a. The Company as the lessor

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

b. The Company as the lessee

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

Government Grants

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Post-employment benefits

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

Share-based Payment Arrangements

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

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

Taxation

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

a. Current tax

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

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

b. Deferred tax

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

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

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

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

c. Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Impairment of equipment and intangible assets

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

6. CASH AND CASH EQUIVALENTS

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

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

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

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

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

8. FINANCIAL ASSETS AT AMORTIZED COST

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

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

9. CREDIT RISK MANAGEMENT OF DEBT INSTRUMENTS

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

Year ended December 31, 2019

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

Year ended December 31, 2018

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

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

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

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

Year ended December 31, 2019

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

Year ended December 31, 2018

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

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

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

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

10. ACCOUNTS RECEIVABLE

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

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

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

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

Aging analysis of accounts receivable

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

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

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

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

11. INVENTORIES

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

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

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

12. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

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

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

13. PROPERTY, PLANTS AND EQUIPMENT

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

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

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

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

14. LEASE AGREEMENTS

a. Right-of-use assets – 2019

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

b. Lease liabilities – 2019

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

Lease liabilities discount rate:

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

c. Material lease-in activities and terms

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

d. Other lease information

2019

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

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

2018

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

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

15. INTANGIBLE ASSETS

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

Accumulated Amortization

Balance January 1, 2019	(\$ 26,488)	(\$ 444)	(\$ 26,932)
Amortization	(14,166)	(35)	(14,201)
Disposals	<u>26</u>	<u>-</u>	<u>26</u>
Balance December 31, 2019	(<u>\$ 40,628</u>)	(<u>\$ 479</u>)	(<u>\$ 41,107</u>)

Carrying Amounts at December 31,
2019

<u>\$ 7,199</u>	<u>\$ 191</u>	<u>\$ 7,390</u>
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The above items of intangible assets were depreciated on a straight-line basis over the estimated useful lives as follows:

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

16. PREPAYMENTS

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

17. SHORT TERM BORROWING

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

18. OTHER PAYABLES

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

19. RETIREMENT BENEFITS PLANS

Defined Contribution Plans

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

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

20. EQUITY

a. Share Capital

Ordinary Shares

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

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

b. Retained Earnings and Dividend Policy

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

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

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

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

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

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

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

c. Special Reserve

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

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

21. SHARE BASED PAYMENT AGREEMENTS

Employee Share Option Plan of the Company and Subsidiaries

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

Information on employee share options as follows:

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

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

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

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

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

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

22. GOVERNMENT GRANTS

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

a. Investment Projects

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

b. Innovation Output

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

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

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

23. REVENUE

a. Contract Balance

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

b. Revenue from Contracts with Customers

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

24. NET PROFIT(LOSS)

Net profit (loss) included the following items

a. Other Income

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

b. Other Gains and Losses

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

c. Finance costs

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

d. Depreciation and Amortization

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

e. Employee Benefits Expenses

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

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

f. Employees' Compensation and Remuneration of Directors

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

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

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

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

25. INCOME TAX

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

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

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

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

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

b. Deferred Tax Assets

The movements of deferred tax assets were as follows:

Year Ended December 31, 2019

NT\$

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

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

US\$

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

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

Year Ended December 31, 2018

NT\$

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

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

US\$

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

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

c. Income Tax Assessments

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

26. EARNINGS PER SHARE

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

EPS is computed as follows:

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

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

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

27. CAPITAL MANAGEMENT

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

28. FINANCIAL INSTRUMENTS

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

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

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

1) Fair Value Hierarchy

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

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

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

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

c. Categories of Financial Instrument

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

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

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

d. Financial Risk Management Objectives and Policies

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

1) Market Risk

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

a) Exchange Rate Risk

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

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

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

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

Sensitivity Analysis

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

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

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

b) Interest Rate Risk

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

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

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

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

Sensitivity Analysis

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

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

2) Credit Risk

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

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

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

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

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

3) Liquidity Risk

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

a) Liquidity and Interest Risk Rate Tables

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

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

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

b) Financing Facilities

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

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

29. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

Year Ended December 31, 2019

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

Year Ended December 31, 2018

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

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

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

31. SEPARATELY DISCLOSED ITEMS

a. Information About Significant Transactions and (II) Investees

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

b. Information on Investments in Mainland China:

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

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

32. SEGMENT INFORMATION

a. Operating Segment

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

b. Geographical Information

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

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

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

(In Thousands of US\$)

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

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

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

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES
MARKETABLE SECURITIES HELD
December 31, 2019

TABLE 1

(In Thousands of New Taiwan Dollars)

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

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

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

TABLE 2

(In Thousands of New Taiwan Dollars)

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

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

TABLE 3

(In Thousands of New Taiwan Dollars)

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

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

TABLE 4

(In Thousands of New Taiwan Dollars)

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

Note 1:

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

Note 2: Relationship types are as follows:

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

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

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

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

TABLE 5

In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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

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

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

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

TABLE 6

In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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

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

Note 1: The investment types are as follows:

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

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

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