Stock Code: 3530

Silicon Optronics, Inc.

2019 Annual Report(TRANSLATION)

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

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Notice to Readers：
The reader is advised that the annual report has been prepared originally in Chinese. The English version is directly translated from Chinese version. If there is any difference between English versionand Chinese version, the Chinese version shall prevail.

I. Spokesperson:

Name: Henry Chien

Title: Director

Tel: 886-3-567-8986

Email: ir@soinc.com.tw

II. Deputy Spokesperson:

Name: Steffi Huang

Title: Senior Director

Tel: 886-3-567-8986

Email: ir@soinc.com.tw

III. Silicon Optronics, Inc. Addresses & Telephone Number:

Headquarters Address : 4F., No.10-2, Lixing 1st Rd., Hsinchu Science Park, Taiwan, R.O.C. 300

Tel: 886-3-567-8986

IV. Transfer Agent：

Company Name: Registrar Agency, Capital Securities Corp.

Address: B2., No. 97, Sec. 2, Dunhua South Rd., Taipei City

Tel: 886-2-2702-3999

Website: www.capital.com.tw

V. Independent Auditor:

Company: Deloitte Touche Tohmatsu Limited

Auditors: Ming-Yuan Chung、Cheng-Chih Lin

Address: 20F, No. 100, Songren Road, Xinyi District, Taipei City

Telephone: 886-2-2725-9988

Website: www.deloitte.com.tw

VI. Name of Overseas Securities Dealers and the Methods to Inquire about Overseas Securities：Nill

VII. Company Website: www.soinc.com.tw

Table Of Contents

I、 Letter to the Shareholders

Dear Shareholders,

The revenue of SOI was NT$2,294,110 in 2019, which increases 12.8% compared with 2018. The total sales volume also increased more than 25%. In 2019, the net profit after tax was NT$156,010,000, which is equivalent to 2018 NT$157,432,000. The surplus after tax per share was NT$2.01 in 2019, which decreases 7.4%.

In the past years, the image sensor products for surveillance were the main product lines of SOI. We continue to research and develop new application of relevant products to expand the market and to gain more addon values, such as car electronics, artificial intelligence, industrial robot, etc. With the ramp up of the internet cloud and more easy-to-use applications, there are significant growths in consumer network camera in worldwide market, we have a very good sales results in this filed in last year. In term of surveillance product lines, in addition to progress of the application of the internet and the artificial intelligence, we also create a high-resolution product line. In response to increasing market competition and supply chain shortage, we also planned a series of high C/P value product lines to gain more market share in the second half of 2019.

With the rapid evolution of automotive sensor industry, increasing consumer demands, and the race of autonomous driving, cars are getting smarter and take more safety features. We have stepped into brand market of dashcam and car DVR and also successfully developed packages applying AEC-Q100 specifications for automotive pre-installed market.

Global market tension is rising since 2018 due to trading wars. The recent pandemic makes the economic environments even worse and getting more rigid. In order to keep our competitive edge, we are actively developing new application lines, and enhance relationships with brand customers. In addition, our innovative products, such as BSI image sensors, NIR-enhanced technology and global shutter products are launched and already designed in with our partners for new application opportunities.

The recent pandemic cause an economic crisis, we will continue to improve our competitive strength, enhance supply chain management and develop new market in a prudent and pragmatic manner. I would like to thank our shareholders, customers, and suppliers for all your long-term support and also appreciate all my colleagues for their hard work and contributions. We will put all our efforts to keep growing and feedback to all of you.

Chairman
James He

II、 Company Overview

1. Date of Incorporation:

The company was incorporated on May 24th, 2004 and listed on the Taiwan Stock Exchange on July 16th, 2018. The headquarters is set up in Hsinchu and has established R&D and sales sites in the United States and Mainland China.

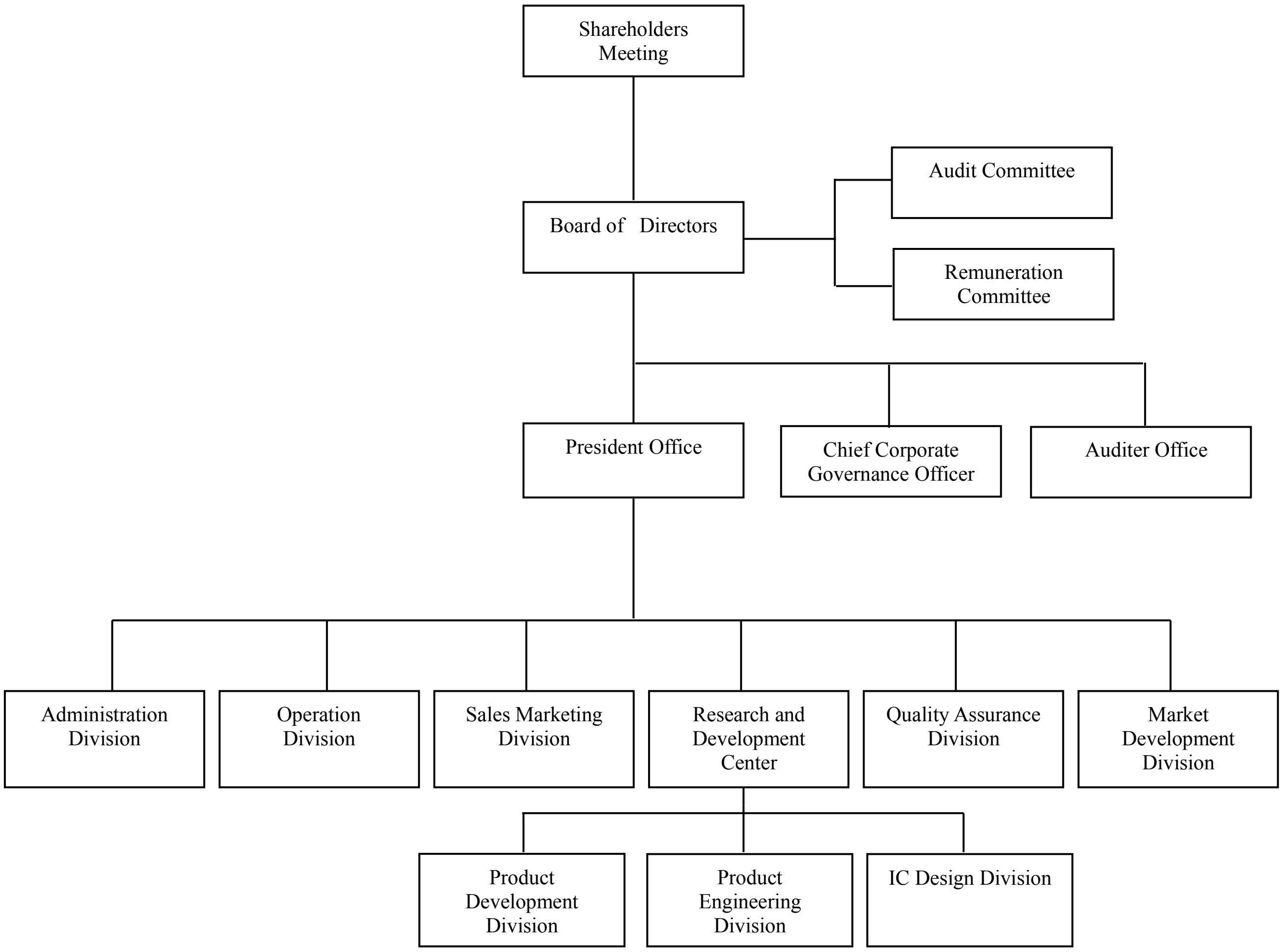
2. Milestones:

2004.01	The preparatory office was established.
2004.05	Incorporated with registered capital of NT$100 million.
2006.07	Approved by the Science-Based Industrial Park Administration to register and locate in Hsinchu Science Park District
2006.09	Initial Public offering of stock.
2007.04	Registered in Emerging Stock Market
2010.01	Received ISO9001 compliance certificate.
2011.12	Remuneration Committee was established.
2012.03	The Board of Directors has resolved to proceed the share conversion with Nueva Imaging, Inc, and to issue of new shares through capital increase. The proposal was adopted with approval by that year's shareholders' meeting.
2012.09	The company and Nueva Imaging, Inc. completed the share conversion, capital increase, and issuance of new shares. The paid-in capital increased to NT$620,739 thousand.
2012.10	The company completed the capital increase by cash and paid-up capital to NT$651,009 thousand.
2014.01	Silicon Optronics (Shanghai) Co., Ltd. was established.
2017.08	Re-election of the 7th Board and Mr. He Xinping, upon expiration of the tenure, was elected again as the Chairman.
2017.08	The first Audit Committee was established.
2018.07	A total of 9,285,000 shares were increased to the capital by cash before listing, and the paid-in capital became NT$772,659 thousand.
2018.07	Listed on the Taiwan Stock Exchange.

III、 Corporate Governance

1. Organization:

(1) Organizational Chart



(2) Department Functions:

Department	Major Corporate Functions
President Office	1. Assist the chairman to handle the execution and coordination of the company's business. 2. Planning of the company's medium and long-term business strategies and evaluation of business performance. 3. Strategic planning and implementation of new businesses 4. Ramp up production capacity and implement operational strategies. 5. Appoint a representative of the quality management system.
Auditer Office	1. Inspect and evaluate the reliability and effectiveness of the company's operating information and internal control systems. 2. Propose recommendations for improvement and facilitate effective operations.
Administration Division	1. Responsible for the management of finance, accounting and budget management. 2. Responsible for the company's shareholder affairs and personnel affairs. 3. Responsible for the company's legal affairs and patents. 4. Responsible for the administration of administrative affairs.
Product Development Division	1. Definition of new products. 2. Customer support. 3. CP/FT test program coding and development.
Product Engineering Division	1. Development of new product production process technology 2. New production process research and development of wafer foundry and packaging plants 3. Responsible for product specifications verification, failure mode analysis, mass production conditions set-up, yield rate improvement, product practical application verification and assisting clients to solve product application problems. 4. Test engineering management, packaging engineering management, wafer fabrication project management 5. CP/FT test arrangements and management. 6. Management of tape out flows during mask making.
IC Design Division	1. Digital IC design and verification. 2. Assist the development of the image drill algorithm and achievement of FPGA.
Market Development Division	1. Planning of product marketing strategies 2. Collect and control market information.
Sales Marketing Division	1. Product promotion and market development 2. Review, receive, and after-sales services for customer orders. 3. Customer satisfaction survey.
Operation Division	1. Outsourcing production strategy, production planning, materials and warehouse management, and import/export operations. 2. Order and shipping management. 3. Procurement/outsourcing management 4. MIS network and ERP system management.
Quality Assurance Division	1. Establish and implement quality/RSF assurance systems to improve control procedures and ensure product quality. 2. Formulate quality policies. 3. Product quality inspection, customer complaint handling and return analysis. 4. Calibration and DCC, SQE management.

2. Information of Directors and Officials

(1) Directors Information Table

a. Directors Information

April 18, 2020; Unit: %

Title	Nationality/ Country of Origin	Name	Gender	Date Elected (Appointed)	Termof office	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship			Remarks
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman	SAMOA	Heritage Bay Limited	-	2017.08.14	3 years	2016.06.08	18,776,413	27.53	18,676,413	23.91	-	-	-	-	-	-	-	-	-	
	USA	Representative: James He	Male	2017.08.14	3 years	2013.06.11	120,000	0.18	150,000	0.19	-	-	-	-	MSEE, BSEE, Tsinghua University. Director & COO, OmniVision Technologies, Inc . Director, Xintec Inc Director, OmniVision Technology International Ltd. Director, OmniVision Technologies (Shanghai), Co. Ltd. Director, OmniVision Semiconductor (Shanghai), Co. Ltd. Chairman, Taiwan OmniVision Technologies, Inc. Chairman, Taiwan OmniVision International Holding Ltd	Chairman and President of the company Chairman, Nueva Imaging Inc. Chairman,Silicon Optronics Holding (Cayman) Co., Ltd. Director,Heritage Bay Limited	-	-	-	Note 1
Director	SAMOA	Heritage Bay Limited	-	2017.08.14	3 years	2016.06.08	18,776,413	27.53	18,676,413	23.91	-	-	-	-	-	-	-	-	-	
	Singapore	Representative: Peter Zung	Male	2017.12.21	3 years	2013.06.11	1,240,000	1.82	1,311,000	1.68	-	-	-	-	University of California, San Diego_ IR/ PS University of California, Berkeley Bachelor, Chemistry VP, VisEra Technologies Sr. Director, Credence Systems GM, Lam Research Sr. Director, KLA- Tencor	Vice President of the Company Vice President,Nueva Imaging Inc.	-	-	-	
Independent Director	Taiwan	Jim Lai	Male	2017.08.14	3 years	2017.08.14	-	-	-	-	-	-	-	-	Master of Electrical Engineering UC Santa Barbara President, Global Unichip Corp.	Consultant, GUC Consultant, Digitimes Director, Giga-Solution Tech Co., Ltd.- Legal representative of the Ardentec Corp. Independent Director, Truelight Corporation Director, Wolley Inc. Director, Megachips Corp.	-	-	-	
Independent Director	Taiwan	JJ Lin	Male	2017.08.14	3 years	2017.08.14	-	-	-	-	-	-	-	-	EMBA, Management College, National Taiwan University Master of Applied Chemistry, Tsinghua University Consultant and President , KANTO-PPC Inc. Executive Vice President, Global	Chairman, Temic Co., Ltd. Independent Director, M31 Technology Corporation Legal representative of the director, SG Biomedical Corp. Director, Stek Co., Ltd. Director, Tsing Hua Fund	-	-	-	

															Unichip Corp. CEO, Xintec Inc. CEO and President, VisEra Technologies Company Limited Senior Director, Taiwan Semiconductor Manufacturing Company, Limited	Director, Taiflex Scientific co., Ltd Director, Tsing Hua Entrepreneur Network Director, Capital TEN Inc.				
Independent Director	Taiwan	Chang-Chou Li	Male	2017.12.21	3 years	2017.12.21	-	-	-	-	-	-	-	-	Master of Accounting at University of Illinois at Urbana-Champaign in the United States CPA Partner, PricewaterhouseCoopers Taiwan	Chih-Cheng CPA Firm CPA Partner, Independent Director and Member of the Remuneration Committee, Kuen Ling Machinery Refrigerating Co., Ltd. Independent Director and Member of the Remuneration Committee, Axcen Photonics Corporation Independent Director、Member of the Audit Committee and Member of the Remuneration Committee, Evergreen Marine Corporation Independent Director and Member of the Audit Committee, Hotai Insurance Co., Ltd.	-	-	-	

Note 1：Where chairman and president of the equivalent level (the top executive) are the same person, spouses or first-degree relative, please explain reasons, rationality, necessity and countermeasures for this situation:

(1) The company is the IC design house where its principal business activity is to make research and development, production and sales business. For the same person to take on both positions of chairman and president, this person can have more insight into the business status of the company so that the board of directors can get hold of it as well. This kind of flat management can enhance the management efficiency and make the execution of decisions smoother.

(2) The Company has established an audit committee. In addition to clearly defined tasks, it can also improve and supervise the management function of the board of directors. Meanwhile, the total independent directors for 60% of the total seats of directors. This way, it not only helps the Company to strengthen the supervision and balance systems, it can also reduce centralized power caused by the chairman and the general manager served by the same person, resulting loss in its power for objectivity and supervision.

b. Major Shareholders of Institutional Shareholders

Major Shareholders of the Institutional Shareholders

As of April 18, 2020

Name of institutional shareholders	Major shareholders of the institutional shareholders	
Heritage Bay Limited	XINPING HE	54.61%
	HE CHILDREN’S TRUST	39.01%
	DUIDI CHEN	4.68%
	SHURONG ZHAO	1.70%

List of Institutional Shareholders of SOI’s Major Institutional Shareholders : None.

c. Directors’ Information

Qualifications / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Status (Note)												Number of Other Public Companies concurrently Serving as an Independent Director
	Lecturer or above of business,law,finance,accounting or other subject related to company activity in a junior college or above	Qualification of Justice,Prosecutor,Attorney,CPA,Specialist or Technician of National Examination in Corporate Business Related Fields	Work experience in business,law,finance,accounting or others related to company activity	1	2	3	4	5	6	7	8	9	10	11	12	
Heritage Bay Limited. Representative: James He			√						√		√	√	√	√		-
Heritage Bay Limited. Representative: Peter Zung			√						√	√	√	√	√	√		-
Jim Lai			√	√	√	√	√	√	√	√	√	√	√	√	√	1
JJ Lin			√	√	√	√	√	√	√	√	√	√	√	√	√	1
Chang-Chou Li		√	√	√	√	√	√	√	√	√	√	√	√	√	√	3

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

(1) Not an employee of the company or any of its affiliates.

(2) Not a director or supervisor of the company or any of its affiliates. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
(6) If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person: not a director, supervisor, or employee of that other company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
(7) If the chairperson, general manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses: not a director (or governor), supervisor, or employee of that other company or institution. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
(8) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent, if the specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the public company.
(9) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
(10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
(11) Not been a person of any conditions defined in Article 30 of the Company Law.
(12) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

(2) Information of the President, Vice Presidents, and Officers

As of April 18, 2020; Unit: Shares; %

Title	Nationality	Name	Gender	Date Effective (Appointed)	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Serves concurrently as	Managers who are Spouses or Second degree relative			Remarks
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
President	USA	James He	Male	2012.02.10	150,000	0.19	-	-	-	-	MSEE, BSEE, Tsinghua University. Director & COO, OmniVision Technologies, Inc. Director, Xintec Inc. Director, OmniVision Technology International Ltd. Director, OmniVision Technologies (Shanghai), Co. Ltd. Director, OmniVision Semiconductor (Shanghai), Co. Ltd. Director, Shanghai OmniVision Semiconductor Technology, Co. Ltd. Chairman, OmniVision Technologies, Inc Chairman, OmniVision International Technologies, Inc Chairman, Taiwan OmniVision International Holding Ltd.	Chairman, Nueva Imaging Inc. Chairman, Silicon Optronics Holding (Cayman) Co., Ltd. Director, Heritage Bay Limited	-	-	-	Note 2
Vice President	Singapore	Peter Zung	Male	2013.03.05	1,311,000	1.68	-	-	-	-	University of California, San Diego_ IR/ PS University of California, Berkeley Bachelor, Chemistry VP, VisEra Technologies Sr. Director, Credence Systems GM, Lam Research Sr. Director, KLA- Tencor	Vice President Nueva Imaging Inc	-	-	-	
Vice President	USA	Denis Luo	Male	2013.03.05	4,583,587	5.87	-	-	-	-	Tsinghua University. SR. DIRECTOR OF MIXED SIGNAL GROUP DIRECTOR OF MIXED SIGNAL GROUP	Vice President Nueva Imaging Inc	-	-	-	
Chief Technology Officer	USA	Ming Li	Male	2014.12.10	630,000	0.81	-	-	-	-	PhD in Electronic System Parts and Microelectronics, Southeast University Senior Manager, Taiwan Semiconductor Manufacturing Company, Limited	Chief Technology Officer Nueva Imaging Inc	-	-	-	
Chief Financial Officer	Taiwan	Steffi Huang	Female	2017.06.12	459,000	0.59	138,000	0.18	-	-	Accounting Department, Tamkang University Assistant Manager, Audit Department, KPMG Director, Auditing Department, Taiwan Mobile Co., Ltd.	Supervisor, Silicon Optronics (Shanghai) Co., Ltd.	-	-	-	
Director& Spokesperson	Taiwan	Henry Chien	Male	2019.10.01	20,000	0.03	14,000	0.02	-	-	Master of Hydraulic and Ocean Engineering, National Cheng Kung University Manager&Spokesperson Sales Marketing Division,Service & Quality Co., Ltd Senior Manager Sales Marketing Division, Insilica Inc. (US).	-	-	-	-	
Senior Director	Taiwan	Bryce Li	Male	2019.12.01	20,000	0.03	4,000	0.01	-	-	Master of Computational Math, Michigan State University Marketing Manager, Taiwan IBM GM, OmniVision Technology Inc. Taiwan Branch	-	-	-	-	

Note 1：Shareholdering ratio is calculated with outstanding shares of 78,105,900.

2：Where chairman and president of the equivalent level (the top executive) are the same person, spouses or first-degree relative, please explain reasons, rationality, necessity and countermeasures for this situation:

(1) The company is the IC design house where its principal business activity is to make research and development, production and sales business. For the same person to take on both positions of chairman and president, this person can have more insight into the business status of the company so that the board of directors can get hold of it as well. This kind of flat management can enhance the management efficiency and make the execution of decisions smoother.

(2) The Company has established an audit committee. In addition to clearly defined tasks, it can also improve and supervise the management function of the board of directors. Meanwhile, the total independent directors for 60% of the total seats of directors. This way, it not only helps the Company to strengthen the supervision and balance systems, it can also reduce centralized power caused by the chairman and the general manager served by the same person, resulting loss in its power for objectivity and supervision.

3. Remuneration Paid to Directors(Independent Directors), President and Vice Presidents

(1) Remuneration of Directors(Independent Directors):

Unit: NT$1,000; thousand shares

Title	Name	Remuneration of Directors								A + B + C+D as percentage of net income after tax		Remuneration from concurrent position as employee								A + B + C + D + E+F+G as percentage of net income after tax		Remuneration received from re-investment business other than subsidiaries
		Remuneration (A) (Note 1)		Pension (B) (Note 2)		Remuneration from profit distribution (C) (Note 3)		Business Expenses (D) (Note 4)				Salary, Bonuses, and special expense (E) (Note 5)		Pension (F)		Profit distribution for Employee Compensation (G) (Note 3)						
		SOI	consolidated Entities	SOI	consolidated Entities	SOI	consolidated Entities	SOI	consolidated Entities	SOI	consolidated Entities	SOI	consolidated Entities	SOI	consolidated Entities	SOI		consolidated Entities		SOI	consolidated Entities	
																Cash	Stock	Cash	Stock			
Director	James He	1,800	1,800	-	-	2,500	2,500	240	240	2.91%	2.91%	1,632	9,667	-	-	1,570	-	1,570	-	4.97%	10.11%	None
Director	Peter Zung																					
Independent Director	Chang-Chou Li																					
Independent Director	JJ Lin																					
Independent Director	Jim Lai																					
*Other than what disclosure above, SOI Directors who provided services to any companies mentioned in this financial report in the most current year(including non-employee consulatant):																						

Remuneration Ranges

Remuneration Ranges	Name of Directors			
	Total Remuneration (A+B+C+D)		Total Remuneration (A+B+C+D+E+F+G)	
	SOI	consolidated Entities H	SOI	consolidated Entities I
Less than NT$ 1,000,000	James He, Peter Zung	James He, Peter Zung		
NT$1,000,000(incl.)~ NT$2,000,000(excl.)	Jim Lai, JJ Lin, Chang-Chou Li	Jim Lai, JJ Lin, Chang-Chou Li,	James He, Jim Lai, JJ Lin, Chang-Chou Li, Peter Zung	Jim Lai, JJ Lin, Chang-Chou Li
NT$2,000,000(incl.)~ NT$3,500,000(excl.)				
NT$3,500,000(incl.)~ NT$5,000,000(excl.)				
NT$5,000,000(incl.)~ NT$10,000,000(excl.)				James He, Peter Zung
NT$10,000,000(incl.) ~ NT$15,000,000(excl.)				
NT$15,000,000(incl.) ~ NT$30,000,000(excl.)				
NT$30,000,000(incl.) ~ NT$50,000,000(excl.)				
NT$50,000,000(incl.) ~ NT$100,000,000(excl.)				
NT$100,000,000 and above				
Total	5	5	5	5

Note 1: The 2019 Director remuneration includes functional committee remuneration.

Note 2: No pesion were paid out to any director in 2019.

Note 3: The 2019 Directors and Employees Remuneration Scheme has been approved by Borad of Directors on March 17, 2020.

Note 4: Business expense of NT$240,000 paid to directors was travelling expenditure.

Note 5: Salaries, bonuses and special expenses includes estimated share-based compensation.

(2) Remuneration Paid to President and Vice Presidents

Unit: NT$1,000; thousand shares

Title	Name	Salary (A)		Pension (B) (Note 1)		Bonuses and Special expenses (C) (Note 2)		Employee Compensation from Profit Distribuion (D) (Note 3)				A + B + C+D as percentage of net income after tax (%)		Remuneration received from re-investment business other than subsidiaries
		SOI	Consolidated Entities	SOI	Consolidated Entities	SOI	Consolidated Entities	SOI		Consolidated Entities		SOI	Consolidated Entities	
								Cash	Stock	Cash	Stock			
President	James He	2,573	18,642	-	-	1,835	1,835	3,800	-	3,800	-	5.26%	15.56%	None
Chief Technology Officer	Ming Li													
Vice President	PC Lin (1)													
Vice President	Denis Luo													
Vice President	Peter Zung													

(1) PC Lin resigned on January 31st, 2019.

Remuneration Ranges

Range of remuneration paid to the President and Vice Presidents of the company	Name of President and Vice Presidents	
	SOI	Consolidated Entities
Less than NT$ 1,000,000	-	-
NT$1,000,000(incl.)~ NT$2,000,000(excl.)	James He, Ming Li, Peter Zung, Denis Luo, PC Lin	PC Lin
NT$2,000,000(incl.)~ NT$3,500,000(excl.)	-	-
NT$3,500,000(incl.)~ NT$5,000,000(excl.)	-	-
NT$5,000,000(incl.)~ NT$10,000,000(excl.)	-	James He, Ming Li, Peter Zung, Denis Luo
NT$10,000,000(incl.) ~ NT$15,000,000(excl.)	-	-
NT$15,000,000(incl.) ~ NT$30,000,000(excl.)	-	-
NT$30,000,000(incl.) ~ NT$50,000,000(excl.)	-	-
NT$50,000,000(incl.) ~ NT$100,000,000(excl.)	-	-
NT$100,000,000 and above	-	-
Total	5	5

Note 1: No pesion were paid out to any director in 2019.

Note 2: Salaries, bonuses and special expenses includes estimated share-based compensation.

Note 3: The 2019 Employees Remuneration Scheme has been approved by Borad of Directors on March 17, 2020.

(3) Employees' Profit sharing bonus paid to Officers: The managerial officers' compensation of the company is based on their participation degree and contribution value to the company's operations,

(4) Compare and analyze the total remuneration as a percentage of net income stated in the parent company only financial reports or individual financial reports, paid by this company and by all consolidated entities (including this company) for the most recent 2 fiscal years to each of this company's directors, supervisors, president, and vice presidents, and describe the policies, standards, and packages for payment of remuneration, as well as the procedures for determining remuneration, and its linkage to business performance and future risk exposure:

a. Information regarding remuneration paid to the directors, supervisors, president, and vice presidents of the company and all the companies included in the consolidated financial statements in the last two years.

December 31, 2019; Unit: NT$ thousands

Title	2019		2018	
	SOI	Consolidated Entities	SOI	Consolidated Entities
Director	1.60%	1.60%	1.59%	1.59%
President and Vice President	5.26%	15.56%	6.74%	16.70%

b. The policies, standards, and packages for payment of remuneration, as well as the procedures followed for determining the remuneration, and their linkages to business performance and future risk exposure:
The remuneration of the Directors and Supervisors shall be paid in accordance with the Company's Articles of Incorporation; remuneration for the President and Vice Presidents shall be determined in accordance with the company's salary policy. The payout of bonuses shall be based on the company's management performance and individual performance.

4. Corporate Governance

(1) Board of Directors’ Meetings Status：

Over the past year, 6 board meetings were held and the attendance rate of the directors is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%) (Note)	Remarks
Chairman	James He	6	0	100.00%	-
Director	Peter Zung	6	0	100.00%	-
Independent Director	Jim Lai	6	0	100.00%	-
Independent Director	JJ Lin	6	0	94.12%	-
Independent Director	Chang-Chou Li	6	0	100.00%	-

Note: Actual attendance (appearance) rate (%) shall be calculated using the number of Directors’ Meetings convened and actual attendance (appearance) during the term of service.

Other Required Notes for the Board Meetings:

a. Matters referred to in Article 14-3 of the Securities and Exchange Act and other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the Board of Directors:

<table>
<tr><th>Date of Meeting</th><th>Resolutions</th><th>Items listed in Article14-3</th><th>Any Independent Director Had a Dissenting Opinion or Qualified Opinion</th></tr>
<tr><td rowspan="2">2019.01.24
The 12th meeting of the 7th Board</td><td>1. Adoption of the company's capital expenditure plan.</td><td>V</td><td>None</td></tr>
<tr><td colspan="3">Resolution results：The proposal agreed and adopted by the Company’s Audit Committee and all the directors present at the Board meeting.</td></tr>
<tr><td rowspan="3">2019.03.08
The 13th meeting of the 7th Board</td><td>1. Adoption 2018 employees' profit sharing bonus anddirectors' compensation.</td><td>V</td><td>None</td></tr>
<tr><td>2. To revise the Procedures for Acquisition or Disposal of Assets.</td><td>V</td><td>None</td></tr>
<tr><td colspan="3">Resolution results：
1. The 1st Proposal is reviewed by the Company's Remuneration Committee. Because some directors also serve as managers of the company and did not participate in discussion and resolution of the proposal, the case was chaired by other directors and approved by consultation with other directors present.
2. 2nd proposal agreed and adopted by the Company’s Audit Committee and all the directors present at the Board meeting.</td></tr>
<tr><td rowspan="2">2019.06.18
The 15th meeting of the 7th Board</td><td>1.Implementation of capital expenditure plan.</td><td>V</td><td>None</td></tr>
<tr><td colspan="3">Resolution results：The proposal agreed and adopted by the Company’s Audit Committee and all the directors present at the Board meeting.</td></tr>
<tr><td rowspan="4">2019.08.12
The 16th meeting of the 7th Board</td><td>1.Adoption of the Company 2019 first half financial statements.</td><td>V</td><td>None</td></tr>
<tr><td>2. Adoption of the Company’s formulation of the Measures for Transfering Repurchased shares to Employees。</td><td>V</td><td>None</td></tr>
<tr><td>3. Adoption of the Company’s first share repurchse.</td><td>V</td><td>None</td></tr>
<tr><td colspan="3">Resolution results：For 1st 2nd and 3rd proposals were agreed and adopted by the Company’s Audit Committee and all the directors present at the Board meeting.</td></tr>
<tr><td rowspan="5">2019.11.12
The 17th meeting of the 7th Board</td><td>1.Adoption of 2020 annual audit plan.</td><td>V</td><td>None</td></tr>
<tr><td>2. To revise the Procedures for lending funds to other parties</td><td>V</td><td>None</td></tr>
<tr><td>3. To revise the Procedures for endorsement & Guarantee</td><td>V</td><td>None</td></tr>
<tr><td>4. To revise the Accounting Systems, Internal Control Systems and Internal Control Implementation Details</td><td>V</td><td>None</td></tr>
<tr><td colspan="3">Resolution results：For 1st 2nd 3rd and 4th proposals were agreed and adopted by the Company’s Audit Committee and all the directors present at the Board meeting.</td></tr>
</table>

b. Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the Board of Directors: None.

c. If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting shall be specified:

Date of Meeting	The Borad Meeting		Proposal Content	Resolution
2019.03.08	The 7th Board	The 13th meeting	Distribution of remuneration for Directors and Managers for 2018	Due to conflict of personal interest, Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.
2019.11.12	The 7th Board	The 17th meeting	The awarding principles of year-end bonus and the managers' compensation amount for the year 2019	Due to conflict of personal interest, Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.
			The salary and compensation items that the managers propose to implement in 2020	Due to conflict of personal interest, Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.

d. Information on the evaluation cycle and period, evaluation scope, methods and evaluation contents of the self-evaluation of the board of directors：

Evaluation cycle	Evaluation period	Evaluation Ambits	Evaluation Method	Evaluation Content
Once per year	2019.01.01~ 2019.12.31	Performance evaluation of board of directors, individual directors and functional Committee	Internal self-evaluation of the board of directors and self-evaluation of directors	The internal evaluation of the overall performance of the board of directors covers the following five aspects： A. Participation in the operation of the company B. Improve the quality of board decisions C. Composition and structure of the board of directors D. Selection and continuing education of directors E. Internal Control The measurement of board members' performance evaluation cover the following six aspects： A. Mastering the company's objectives and tasks B. Responsibilities of directors C. Participation in the operation of the company D. Internal relationship

				management and communication E. Selection and continuing education of directors F. Internal Control The performance evaluation of functional Committee covers the following five aspects： A. Participation in the operation of the company B. Responsibilities of functional Committee C. Improve the quality of functional Committee D. Composition and member selection of functional Committee E. Internal Control

e. Measures taken to strengthen the functionality of the board (for example, establishing an Audit Committee and enhancing information transparency) for the current year and the most recent year and the implementation status:

(a) Establish a Remuneration Committee and an Audit Committee: The company established the Remuneration Committee on December 22th, 2011, elected the independent directors at the temporary meeting of shareholders on August 14th, 2017 and also established the Audit Committee on August 23th, 2017 to strengthen the Board of Directors' execution of its powers.

(b) Strengthen corporate governance: The company has established the "Corporate Governance Best Practice Principles", "Procedures for Ethical Management and Guidelines for Conduct" and "Corporate Governance Best Practice Principles", approving by the Board of Directors.

(2) Audit Committee status

Audit Committee has held 6 meetings in 2019. The attendance of the independent directors are shown in the following table：

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%) (Note)	Remarks
Convener	Jim Lai	6	0	100.00%	-
Members	JJ Lin	6	0	93.33%	-
Members	Chang-Chou Li	6	0	100.00%	-

Note: The actual attendance rate (%) shall be calculated based on the number of meetings held by the Audit Committee and the actual number of meetings attended during his/her term of office.

Other Required Notes for the Board Meetings:

a. If the Audit Committee has any of the following circumstances, the date, period, proposal content, the resolution of the Audit Committee and the company's reaction toward the Audit Committee's opinions shall be specified:

(a) Matters referred to in Article 14-5 of the Securities and Exchange Act:

The Board Meeting	Resolutions	Items listed in	Resolution not adopted by the Audit Committee but agreed by more

		Articl e14-5	than two thirds of the entire body of directors
2019.01.24 The 12th meeting of the 7th Board	1. Adoption of the company's capital expenditure plan.	V	None
	Audit Committee’s resolution result:Agreed and adopted by the entire body of Audit Committee members.		
	The Company’s handling of the opinion from the Audit Committee:Agreed and adopted by all the attending directors.		
2019.03.08 The 13th meeting of the 7th Board	1.Adoption of the Company 2018 business report and financial statements	V	None
	2.Adoption of the Company 2018 Earning Distribution Proposal	V	None
	3.Adoption of the Company 2018 Internal Control Statement	V	None
	4.To revise the Procedures for Acquisition or Disposal of Assets.	V	None
	Audit Committee’s resolution result:Agreed and adopted by the entire body of Audit Committee members.		
	The Company’s handling of the opinion from the Audit Committee:Agreed and adopted by all the attending directors.		
2019.05.06 The 14th meeting of the 7th Board	1. To revise the Standard operating procedures for handling directors' requirements	V	None
	Audit Committee’s resolution result:Agreed and adopted by the entire body of Audit Committee members.		
	The Company’s handling of the opinion from the Audit Committee:Agreed and adopted by all the attending directors.		
2019.06.18 The 15th meeting of the 7th Board	1.Implementation of capital expenditure plan .	V	None
	Audit Committee’s resolution result:Agreed and adopted by the entire body of Audit Committee members.		
	The Company’s handling of the opinion from the Audit Committee:Agreed and adopted by all the attending directors.		
2019.08.12 The 16th meeting of the 7th Board	1.Adoption of the Company 2019 first half financial statements.	V	None
	2. Adoption of the Company’s formulation of the Measures for Transfering Repurchased shares to Employees	V	None
	3. Adoption of the Company’s first share repurchse.	V	None
	Audit Committee’s resolution result:Agreed and adopted by the entire body of Audit Committee members.		
	The Company’s handling of the opinion from the Audit Committee:Agreed and adopted by all the attending directors.		

2019.11.12 The 17th meeting of the 7th Board	1.Adoption of 2020 annual audit plan.	V	None
	2. To revise the Procedures for lending funds to other parties	V	None
	3. To revise the Procedures for endorsement & Guarantee	V	None
	4. To revise the Accounting Systems, Internal Control Systems and Internal Control Implementation Details	V	None
	Audit Committee’s resolution result:Agreed and adopted by the entire body of Audit Committee members.		
	The Company’s handling of the opinion from the Audit Committee:Agreed and adopted by all the attending directors.		

(b) Other matters which were not approved by the Audit Committee but were approved by two-thirds or more of all directors: None.

b. If an independent directorrecuses himself from a proposal due tot conflict of interest,th following items shall be recorded name of Director,proposal,reason for recusal and voting record:

Date of Meeting	The Board Meeting		Proposal Content	Resolution
2019.03.08	The 7th Board	The 13th meeting	Distribution of remuneration for Directors and Managers for 2018	Due to conflict of personal interest, Independent Directors involved were recused from voting and the remaining Directors have resolved and approved the proposal.

c. Communications between independent directors, the internal auditor and CPAs:

(a) The independent directors of the company regularly communicate with the chief internal auditor at the Audit Committee and the Board of Directors, and the interaction is good . The chief internal auditor regularly reports the implementation and improvement of the audit plan in the meetings, and communicates and exchange opinions on the effectiveness of the internal control executed by the company.

(b) The independent directors of the company regularly communicate with CPAs at the Audit Committee and exchange opinions. The CPA has fully discussed the review or audit status of the company's financial statements, or issues related to finance, taxation, and internal control with the Independent Directors at the meeting.

(3) Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission:

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations and reasons from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies</th></tr>
<tr><th>Yes</th><th>No</th><th>Abstract Illustration</th></tr>
<tr><td>I. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies”?</td><td>V</td><td></td><td>The company's "Corporate Governance Best Practice Principles" was approved by the Board of Directors on March 8, 2017. The company's corporate governance practices are in compliance with the relevant laws and regulations to proactively disclosure of its corporate governance practices.</td><td>None</td></tr>
<tr><td>II. Shareholding structure & shareholders' equity
(I) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?
(II) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?
(III) Does the company establish and execute the risk management and firewall system within its conglomerate structure?
(IV) Does the company establish internal rules against insiders trading with undisclosed information?</td><td>V</td><td></td><td>(I) The company has set up the shareholder services unit to handle shareholder affairs and shareholders' suggestions or disputes.
(II) The company regularly discloses the list of its major shareholders and persons who have ultimate control over the major shareholders, whose shareholding change has been reported in accordance with the relevant laws and regulations.
(III) The business and financial relationship between the company and its affiliated companies has been formulated in accordance with the relevant regulations required by the competent authority.
(IV) The company has established the "Procedures for Handling Material Information and Prevention of Insider Trading" and "Code of Ethical Conduct", and has been implemented with the resolution of the Board of Directors.</td><td>None</td></tr>
<tr><td>III. Composition and Responsibilities of the Board of Directors
(I) Does the Board develop and implement a diversified policy for the composition of its members?
(II) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?
(III) Does the company establish a standard to measure the performance of the Board, and implement it annually?</td><td>V</td><td></td><td>(I) The company has elected board of directors with diversified professional background, professional skills and industry knowledge in accordance with the "Directors' Selection Procedures".
(II) The company has established the Remuneration Committee and Audit Committee. The organizational procedures for the organization were passed by the Board of Directors.</td><td>None</td></tr>
</table>

Evaluation Item	Implementation Status			Deviations and reasons from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies
	Yes	No	Abstract Illustration	
(IV) Does the company regularly evaluate the independence of CPAs?			(III) The Board of Directors has not appointed an external professional institution to evaluate the Board or the functional committees. However, in terms of the company's previous discussions and actual performance results, it shows the Board of Directors has been functioning well. The company would consider the performance evaluation rules and procedures for the Board of Directors based on the situation, and implement relevant performance evaluation. (IV) The company reviews the independence of the CPAs annually by the Audit Committee and the Board of Directors, and has been appointed by the Board of Directors. It has been confirmed that they are not the directors of the company, not the shareholders of the company, nor are they paid by the company, and are not the stakeholders that shall be granted independence.	None
IV. Does the company set up a corporate governance unit or appoint personnel responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their functions, handling work related to meetings of the board of directors and the shareholders' meetings, filing company registration and changes to company registration, and producing minutes of board meetings and shareholders' meetings)?	V		The company has set up the dedicated (or part-time) unit or has assigned personnel to handle relevant affairs.	None
V. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		The company's website has set up the “Investor Relations” and “Stakeholder Section” to disclose information on financial operations and information on corporate governance and stakeholders' information for shareholders and stakeholders' reference. A spokesperson and deputy spokesperson is set up as a channel for communication with the stakeholders.	None

Evaluation Item	Implementation Status			Deviations and reasons from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies
	Yes	No	Abstract Illustration	
VI. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The company has appointed a professional shareholder services agency, "Registrar Agency, Capital Securities Corp." to handle issues regarding shareholders' meeting and shareholder affairs.	None
VII. Information Disclosure (I) Does the company have a corporate website to disclose both financial standings and the status of corporate governance? (II) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)? (III) Does the Company announce and report the annual financialstatements within two months after the end of the fiscal year,and announce and report the first, second, and third quarterfinancial statements as well as the operating status of eachmonth before the prescribed deadline?	V		(I) The company has disclosed financial operations on the website (www.soinc.com.tw). The company would also disclose relevant information on the corporate website after the corporate governance system is planned and established. (II) The Company has established a spokesman system. Investor conference information is disclosed on the corporate website and the "Market Observation Post System". (III) SOI follows relevant laws and regulations to announce and report the annualfinancial statements within two months after the end of the fiscal year, andannounce and report the first, second, and third quarter financial statementsas well as the operating status of each month before the prescribed deadline. Please see https://mops.twse.com.tw/mops/web/indx	None
VIII. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		(I) Employee Rights and Employee Care: In accordance with Labor Standards Act, the company has provided the rights and interests of the employees, and provides relevant benefits systems (such as group insurance, employee travel, health check, and various training) to establish mutual trust. (II) Investor relations: The company has established a spokesperson and deputy spokesperson to be responsible for the communication of the company's	None

Evaluation Item	Implementation Status			Deviations and reasons from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies
	Yes	No	Abstract Illustration	
			external relations. The designated personnel shall disclose the company's information on the Market Observation Post System (MOPS). (III) Supplier relations: Established long-term, mutual trust, and mutual benefit relationships with the suppliers according to the company's policy. (IV) Stakeholder rights: The company has maintained a good communication channel with its employees, customers and suppliers, and respects and maintains their legitimate rights and interests. (V) Implementation of risk management policies and standards: The company has established various internal regulations to conduct various types of internal regulations, and implemented various risk management and assessment. (VI) Directors' continuing education: To implement corporate governance, the company actively informed the Directors and Independent Directors of information on corporate governance. Regarding to the "Key points for the implementation of the directors and independent directors of the listed company", the company shall also regularly arrange for the training courses on finance, business and business systems for Directors and Independent Directors. (VII) Implementation of customer policies: The company maintains a stable and good relationship with its customers in order to make profits. (VIII) Liability insurance for Directors and Supervisors: The company has bought liability insurance for all Directors and Independent Directors.	
IX. Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures: Not applicable.				

(4) If the company has established Remuneration Committee, its composition, duties and operations:

a. Profiles of the Members of the Remuneration Committee

Title	Qualifications / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience: Lecturer or above of business, law, finance, accounting or other subject related to company activity in a junior college or above	Qualification fo Justice,Procurator,Attorney,CPA,Specialist or Technician of National	Work experience in business,law,finance,accounting or others related to company activity	Independence Criteria (Note 1): 1	2	3	4	5	6	7	8	9	10	Number of Other Public Concurrently Serving as an Remuneration Committee Member	Remarks
Independent Director	Jim Lai	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-
Independent Director	JJ Lin	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-
Independent Director	Chang-Chou Li	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	-

Note 1: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

(1) Not an employee of the company or any of its affiliates.

(2) Not a director or supervisor of the company or any of its affiliates. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.

(6) If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person: not a director, supervisor, or employee of that other company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.

(7) If the chairperson, general manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses: not a director (or governor), supervisor, or employee of that other company or institution. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.

(8) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. Not

apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent, if the specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the public company.

(9) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.

(10) Not been a person of any conditions defined in Article 30 of the Company Law.

b. Operations of the Remuneration Committee

(a) The company's Remuneration Committee has three members.

(b) Term of office: From August 23th , 2017 to August 13th, 2020, the total of three 3 meetings were conducted by the Remuneration Committee in the most recent fiscal year, where the qualifications and attendance of the members are as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)(Note)	Remarks
Convener	JJ Lin	3	0	100%	-
Members	Chang-Chou Li	3	0	100%	-
Members	Jim Lai	3	0	100%	-
Other mentionable items: I. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None. II. Resolutions of the remuneration committee objected to by members or expressed reservations and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.					

Note:

(1) Where members of the Remuneration Committee resign before the end of the year, the Notes column shall be annotated with the date of resignation. Actual attendance rate (%) shall be calculated using the number of Remuneration Committee meetings convened and actual number of meetings attended during the term of service.

(2) When an election is held for the Remuneration Committee before end of the year, members of both the new and old committee shall be listed in separate columns and noted as new, old or reelected members, along with the elected date, in the "Remark(s)" column. The actual attendance rate (%) shall be calculated based on the number of meetings held by the Remuneration Committee and the actual number of meetings attended during his/her term of office.

(5) Status of Fulfillment Corporate social responsibility

Evaluation Item	State of Operations			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and Reasons
	Yes	No	Summary	
I. Does the Company follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to company operation, and establish risk management related policy or strategy?	V		The company has established a code of practice on corporate social responsibility and complies with the norms set out in the code	None
II. Does the Company have a dedicated (or ad-hoc) CSR organization with Board of Directors authorization for senior management, which reports to the Board of Directors?		V	At present, the company has not set up a full-time corporate social responsibility unit.	Under evaluation
III. Environmental Topic (1) Has the Company set an environmental management system designed toindustry characteristics? (2) Is the Company committed to improving resource efficiency and to the use ofrenewable materials with low environmental impact? (3) Does the Company evaluate current and future climate change potential risks and opportunities and take measures related to climate related topics? (4) Does the Company collect data for greenhouse gas emissions, water usage and waste quantity in the past two years, and set energy conservation, greenhouse gas emissions reduction, water usage reduction and other waste management policies?	V		The Company is an IC design house, although all products are outside the processing and production, still strict requirements of non-commissioned manufacturers in the production process should comply with the government environmental management regulations. We are committed to reducing the impact on natural resources and reducing environmental pollution, and are actively responding to climate change, including green supply chain management, raw materials and waste management, product packaging reduction and recycling, reducing CO2 concentrations in office space, and improving energy efficiency.	None

Evaluation Item	State of Operations			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and Reasons
	Yes	No	Summary	
IV. Social Topic (I) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles? (II) Has the Company established appropriately managed employee welfare measures (include salary and compensation, leave and others), and link operational performance or achievements with employee salary and compensation? (III) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training? (IV) Has the Company established effective career development training plans? (V) Does the Company's product and service comply with related regulations and international rules for customers'health and safety, privacy, sales,labelling and set polices to protect consumers'rights and consumer appeal procedures? (VI) Does the Company set supplier management policy and request suppliers to comply with related standards on the topics of environmental, occupational safety and health or labor right, and their implementation status?	V		(I) The company has established relevant rules and regulations in accordance with the Labor Standards Act and relevant labor laws to protect the rights and interests of employees. (II) The company formulates employee handbook and describes employee related welfare, and employee remuneration is handled by resolution of the shareholders' meeting (III) The company has implemented labor safety and health education on its employees from time to time. In the event of a flu pandemic, wearing a mask and a disinfectant at the entrance to the door for employees to use when entering and leaving. (IV) The company arranges on-the-job training based on employees' and job's needs from time to time. (V) The company has established procedures for handling customer complaints and established customer-oriented quality system to assess customer satisfaction in order to achieve the goal of corporate sustainable operations. (VI) The company has established a supplier management policy to evaluate the qualification of supplier-related information before entering into the cooperation contract.The company regularly evaluates suppliers and those who have significant impact on social responsibility and the environment will be included in the evaluation items.	None

Evaluation Item	State of Operations			Deviations from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and Reasons
	Yes	No	Summary	
V. Sustainable Environment Development (I) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment? (II) Does the company establish proper environmental management systems based on the characteristics of their industries? (III) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		(I) The company's main raw materials are wafer. Defective products or scraps during the production process, if any, shall be scrapped by legal waste recycling companies. (II) The company belongs to the IC design industry. It has no own factories and has little impact on the environment. In addition, the company has set up resource recycling bins for resource classification and has outsourced recycling operations by qualified companies. (III) The company's administrative units are responsible for the environmental protection of the company. The company has not made special pollution sources and has signed contracts with cleaning companies to maintain the office environment. On weekdays, the lights are turned off during lunch breaks, and the concept of energy saving and carbon reduction is strictly implemented.	None
VI. Does the Company refer to international reporting rules or guidelines to publish CSR Report to disclose non-financial information of the Company? Has the said Report acquire 3rd certification party verification or statement of assurance?		V	The company has not yet prepared CSR Report.	It will be prepared as required.
VII. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies”, please describe any discrepancy between the Principles and their implementation: The company has established the "Corporate Social Responsibility Best Practice Principles". For the company's operations in compliance with the Code of Practice and related regulations, the company shall comply with the code without discrepancy.				
VIII. Other important information to facilitate better understanding of the company’s corporate social responsibility practices: http://www.soinc.com.tw/				

(6) Implementation Status of Ethical Corporate Management

Evaluation Item	State of Operations			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Summary	
I. Establishment of ethical corporate management policies and programs (I) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies? (II) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies? (III) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	V		(I) The company values and embraces the highest standards of conduct, honesty and integrity. Therefore, all managers and employees are required to comply with this code of conduct when they are involved in any activity. (II) The company has established the Procedures for Ethical Management and Guidelines for Conduct and Employee Handbooks, which specifies the matters that the company's personnel should pay attention to the implementation of their duties. and has established regulations governing employee rewards and punishments. When employees are committed to unethical conduct, they will be punished. (III) The company strictly prohibits managers and all employees from engaging in any bribery and illegal activities. If there is any violation, they will be punished or transferred to the judicial authorities according to the actual situation.	None

II. Fulfill operations integrity policy (I) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts? (II) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity? (III) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it? (IV) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis? (V) Does the company regularly hold internal and external educational trainings on operational integrity?	V		(I) Before the transaction, the company would conduct credit check operations on the counterparty in accordance with the relevant internal control procedures, trying to understand, by all means, whether they have had dishonest trading behavior. (II) The company's has adopted the "Corporate Ethics for Ethical Management and Guidelines for Conduct" by the resolution of Board of Directors approved, and has set up a dedicated unit for corporate integrity management. (III) In order to establish a corporate culture and sound development of integrity management, the company implements a policy to prevent corporate conflicts of interest, and provides appropriate accompanying channels for all colleagues to explain whether they have potential conflicts of interest with the company. (IV) To implement ethical corporate management, the company has established effective systems for both accounting and internal control. Internal auditors also checked the compliance status according to the audit plan. (V) Through different channels, the company has advocated its integrity management philosophy and norms to employees and clearly understands the company's .	None
III. Operation of the whistleblowing channel (I) Has the company established a specific whistleblowing and reward system, set up	V		(I) The company's Board of Directors has approved the "Procedures for Ethical Management and Guidelines for Conduct" to clearly stipulate the	None

convenient whistleblowing channels and designated appropriate personnel? (II) Does the company establish standard investigation operation and procedure for whistleblowing matters and relevant protective mechanisms? (III) Does the company take measures to protect the whistleblower from improper disposal due to the report?			reward and punishment, complaint and disciplinary actions. (II) The company has established the standard operating procedures for investigating the case being exposed by the whistle-blower. (III) The company has not taken protection measures to protect the whistleblowers from inappropriate disciplinary actions.	
IV. Enhancing Information Disclosure Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V		The company has established a website to disclose information on the company and has dedicated personnel to update information. At present, it regularly and irregularly reports various financial and business information on the Market Observation Post System.	None
V. If the company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the Principles and their implementation: The company has adopted the "Procedures for Ethical Management and Guidelines for Conduct", where there is no significant discrepancy from what has been passed by the Board of Directors on March 8, 2017.				
VI. Other important information to facilitate better understanding of the company's corporate social responsibility practices: (such as the company's amendment to its ethical corporate management best practice principles): The company shall always pay attention to the principles of domestic and international business operations, and to promote the company's compliance with relevant regulations and promote all employees' compliance.				

(7) Corporate governance best-practice principles shall be disclosed：The company's website has established the "Corporate Governance" section for investors to inquire and download.

(8) Other important information to further understand the Company’s corporate governance：

a. Continuing education status for Directors in 2019:

Title	Name	Date of Appointment	Continuing Education Date	Organizer	Course Name	Training Hours
Chairman	James He	2017.8.14	2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
					Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
Director	Peter Zung	2017.12.21	2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
					Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
Independent Director	Chang-Chou Li	2017.12.21	2019.02.23	Taiwan Corporate Governance Association	Director's Responsibility and Risk Management under the Latest Corporate Governance Roadmap	3.0
			2019.08.01		Business Secret Protection and Competition Prohibition	3.0
			2019.10.18		AI in Taiwan: Opportunities and Challenges for Industrial Transformation	3.0
					Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
			2019.10.25		Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
Independent Director	JJ Lin	2017.8.14	2019.04.18	Corporate Operation Association	The reform of shareholders' meeting and case study	3.0
			2019.05.03	Securities and Futures Institute	Prevention of Insider Trading Promotion Conference	3.0
			2019.08.28	Corporate Operation Association	in the US-China Trade War,on the opportunity and strategy of Taiwan's enterprise consolidation	3.0
			2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
					Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
Independent Director	Jim Lai	2017.8.14	2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
					Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0

b. Managerial officers' participation in the training of the corporate governance in 2019:

Title	Name	Continuing Education Date	Organizer	Course Name	Training Hours
President	James He	2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
				Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
Vice President	Peter Zung	2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
				Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
Vice President,	Denis Luo	2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
				Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
Chief Technology Officer	Ming Li	2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
				Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
Chief Financial Officer	Steffi Huang	2019.08.20	The Institute of Internal Auditors-Chinese Taiwan	How the internal auditors interpret the operation audit effect and risk from the financial statements of IFRS	6.0
		2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
				Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
		2019.12.30 ~ 2019.12.31	Accounting Research and Development Foundation	Issuer, securities firm, stock exchange, accounting supervisor continuous training course	12.0
Director	Henry Chien	2019.10.25	Taiwan Corporate Governance Association	Corporate Director and Supervisor Responsibility and Corporate Governance	3.0
				Sanctions and Export Control-Taiwan Businessmen in the US-China Trade War	3.0
Chief Internal Auditor	Joyce Lin	2019.06.28	Securities and Futures Institute	Introduction to the impact of the newly revised guidelines for the treatment of acquisition or disposal of assets by public companies and related internal control and internal audit system	6.0
		2019.08.20		Basic knowledge of enterprise's due protection of capital security, personal data and business secrets	6.0

(9) Status of internal control system:

a. Declaration of Internal Control：

Silicon Optronics, Inc.
Statement of Internal Control

Date: March 17, 2020

Silicon Optronics, Inc. has conducted internal control audits in accordance with its Internal Control Regulatins for the Period ended December 31st,2019,and hereby declares the following:

I. The company acknowledges and understands that the establishment, enforcement, and preservation of the internal control systems are the responsibility of the Board and that the managers and the company have already established such systems. The purpose is to reasonably ensure the effectivenss (including profitability, performance, and security of assets); the reliability, timeliness, transparency of financial reporting, and legal and regulation compliance.

II. Internal control systems have limitations, no matter how perfectly they are designed. As such, effective internal control systems may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls systems. The internal control systems of the Company feature certain self-monitoring mechanisms. The company will take immediate corrective actions once any shortcomings are identified.

III. The Company judges the effectiveness of the internal control systems in design and enforcement according to the “Criteria for the Establishment of Internal Control Systems of Public Offering Companies” (hereinafter referred to as “the Criteria”). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control systems. There are five components for effective internal control as specified by the Criteria with which the procedures for effective internal controls are composed: (1) Control environment, (2) Risk evaluation, (3) Control operation, (4) Information and communication, and (5) Monitoring. Each of the elements in turn contains certain audit items, and the Criteria shall be referred to for details.

IV. The Company has adopted the aforementioned internal control systems for an internal assessment of the effectiveness of internal control design and enforcement.

V. Based on the aforementioned audit findings, the Company holds that within the aforementioned period, its internal control procedures (including the procedures to monitor subsidiaries), effectiveness and efficiency of operations, reliability, timeliness, transparency of reporting, and compliance with relevant legal regulations, and design and enforcement of internal controls, are effective. The aforementioned goals can be achieved with reasonable assurance.

VI. This statement of declaration shall form an integral part of the annual report and prospectus of the Company and shall be made public. If there is any fraud, concealment, or unlawful practices discovered in the content of the aforementioned information, the Company shall be liable to legal consequences under Article 20, 32, 171, and 174 of the Securities and Exchanges Act.

VII. This Statement of declaration has been approved by the Board on March 17th, 2020 with all Directors in session under unanimous consent.

Silicon Optronics, Inc.

Chairman & President: James He

b. Disclose the Review Report of Independent Auditors if they are retained for reviewing the Internal Control System: None.

(10) Reprimand on the Company and its Staff in Violation of Laws, or Reprimand on its Employees in Violation of Internal Control System and Other Internal Regulations, Major Shortcomings and Status of Correction: None.

(11) Major Resolutions of the Shareholders' Meeting and Board Meeting:

a. Major resolutions of the Shareholders' Meeting in 2019:

Meeting Date	Major Resolutions
2019.06.08	1. Proposal of 2018 Business Report and Financial Statements. 2. Proposal of distribution of earnings for 2018.

b. Major resolutions of the Board of Directors in the past recent year up until Apr. 28th, 2020:

Meeting Date	Major resolutions
2019.03.08	1. Approval of the distribution of employees and directors' remuneration for the year of 2018. 2. Approval of the 2018 Business Report and Financial Statements. 3. Approval of the distribution of earnings for the year of 2018. 4. Approval of the Statement of Internal Control System for the Year of 2018. 5. Approval of the 2019 Annual Shareholders' Meeting of the company.
2019.05.06	1. Appointment of the company's director of corporate governance. 2. To revise the Standard operating procedures for handling directors' requirements
2019.06.18	1. Approval of the 2018 distribution of earnings record date, ex-dividend date and related matters.
2019.08.12	1. Adoption of the Company's formulation of the Measures for Transfering Repurchased shares to Employees 2. Adoption of the Company's first share repurchse.
2019.11.12	1. Adoption of 2020 annual audit plan. 2. To revise the Procedures for lending funds to other parties 3. To revise the Procedures for endorsement & Guarantee
2020.03.17	1. Approval of the distribution of employees and directors' remuneration for the year of 2019. 2. Approval of the 2019 Business Report and Financial Statements. 3. Approval of the distribution of earnings for the year of 2019. 4. Approval of the Statement of Internal Control System for the Year of 2019. 5. To elect five Directors. (including three independent directors) 6. Approval of the 2020 Annual Shareholders' Meeting of the company.

(12) Major Issues of Record or Written Statements made by any Director Dissenting to Important Resolutions passed by the Board of Directors: None.

(13) Resignation of Chairman, President and other Officers from the preceding year to the Printing Date of this Report: None

5. Disclosure of Auditing Fees:

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Hau-Yuen Chung	Cheng-Chih Lin	2019.01.01~2019.12.31	-

Unit of Amount: NT$ 1,000

Fee Range \ Fee items		Audit Fees	Non-Audit Fees	Total
1	Under NT$ 2,000,000	-	✓	-
2	NT$2,000,001 ~ NT$4,000,000	✓	-	✓
3	NT$4,000,001 ~ NT$6,000,000	-	-	-
4	NT$6,000,001 ~ NT$8,000,000	-	-	-
5	NT$8,000,001 ~ NT$10,000,000	-	-	-
6	Over NT$10,000,000	-	-	-

(1) Non-audit fees paid to the CPAs, accounting firm and its related companies account for more than one-fourth of the audit fees: Not applicable.

(2) Where the CPA firm was replaced, and the audit fees in the fiscal year when the replacement was made were less than that in the previous fiscal year before replacement, the amount of audit fees paid before replacement and reasons for paying this amount shall be disclosed: Not applicable.

(3) Where accounting fee paid for the year was more than 15% less than that of the previous year, the sum, proportion, and cause of the reduction shall be disclosed: Not applicable.

6. Changes in Independent Auditors: None.

7. SOI's Chairman, President, or Director of accounting division working in the accounting firm of the appointed independent auditors or the related parties within the past year: None.

8. Changes in shareholding of directors, supervisors, officers and major shareholders holding more than 10% sharesfor the preceding year to the date of printing of this annual report

(1) Changes in shareholding status Unit: Share

Title	Name	2019		As of April 28, 2020	
		Addition (reduction) of shares held	Addition (reduction) of shares pledged	Addition (reduction) of shares held	Addition (reduction) of shares pledged
Director	Heritage Bay Limited	-	-	-	-
Chairman	James He	-	-	-	-
Independent Director	Jim Lai	-	-	-	-
Independent Director	JJ Lin	-	-	-	-
Independent Director	Chang-Chou Li	-	-	-	-
Vice President	PC Lin (Note 1)	-	-	-	-
Vice President,	Denis Luo	-	-	-	-
Vice President,	Peter Zung	-	-	-	-
Chief Technology Officer	Ming Li	(88,000)	-	(24,000)	-
Chief Financial Officer	Steffi Huang	20,000	-	-	-
Director	Henry Chien	-	-	-	-
Senior Director	Bryce Li	-	-	-	-

Note 1: PC Lin was dismissed on January 31, 2019.

(2) Stock Trade with Related Party: None.

(3) Stock Pledge with Related Party: None.

9. The relationship between any of the Company's top ten shareholders

April 18, 2020；Unit: Share；%

Name (Note 1)	SHAREHOLDING		SHAREHOLDING UNDER SPOUSE AND UNDERAGE CHILDREN		SHAREHOLDING UNDER THE TITLE OF THIRD PARTY		TOP 10 SHAREHOLDERS WHO ARE RELATED PARTIES TO EACH OTHER (Note 3)		REMARK
	Shares	%	Shares	%	Shares	%	Name	Relation	
Heritage Bay Limited	18,676,413	23.91%	-	-	-	-	-	-	-
Representative：James He	150,000	0.19%	-	-	-	-	-	-	-
Heritage Bay Limited	18,676,413	23.91%	-	-	-	-	-	-	-
Representative：Peter Zung	1,311,000	1.68%	-	-	-	-	-	-	-
Full Guest Investments Limited	4,875,458	6.24%	-	-	-	-	-	-	-
Representative：Charles Lu	91,059	0.12%	-	-	-	-	-	-	-
Denis Luo	4,583,587	5.87%	-	-	-	-	-	-	-
Triumph Partners Limited	3,101,000	3.97%	-	-	-	-	-	-	-
Representative：Lin Hung	-	-	-	-	-	-	-	-	-
Deutron Electronics Corp	2,500,000	3.20%	-	-	-	-	-	-	-
Representative：Lo Ying Hua	-	-	-	-	-	-	-	-	-
Tthe investment account of Full Guest Investments Limited under the custody of Taishin International Commercial Bank as trustee	1,744,000	2.23%	-	-	-	-	-	-	-
Chung-Jen Huang	1,361,179	1.74%	-	-	-	-	-	-	-
Peter Zung	1,311,000	1.68%	-	-	-	-	-	-	-
Taiwan Life Insurance Co., Ltd.	1,300,000	1.66%	-	-	-	-	-	-	
Tsang-Hai Lin	628,000	0.80%	-	-	-	-	-	-	

10. Long-Term Investment Ownership: Not applicable.

IV、 Capital Overview

1. Capital and Shares

(1) Source of Capital

a. Formation of capital

April 18th, 2020 Unit: Shares; NT$

Year / Month	Issued Price	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increased by Assets Other than Cash	Others
2019.05	10	100,000,000	1,000,000,000	77,977,900	779,779,000	Employee subscription warrants conversion	-	Note 1
2019.08	10	100,000,000	1,000,000,000	78,025,900	780,259,000	Employee subscription warrants conversion	-	Note 2
2019.11	10	100,000,000	1,000,000,000	78,055,900	780,559,000	Employee subscription warrants conversion	-	Note 3
2020.03	10	100,000,000	1,000,000,000	78,080,900	780,809,000	Employee subscription warrants conversion	-	Note 4
2020.04	10	100,000,000	1,000,000,000	78,105,900	781,059,000	Employee subscription warrants conversion	-	Note 5

Note 1: Approved by the letter of 2019.05.16 Zhu Shang Zi No. 1080013714.
Note 2: Approved by the letter of 2019.08.23 Zhu Shang Zi No. 1080024631.
Note 3: Approved by the letter of 2019.11.22 Zhu Shang Zi No. 1080033919.
Note 4: Approved by the letter of 2020.03.26 Zhu Shang Zi No. 1090008351.
Note 5: The conversion of the employee stock options is 25,000 ordinary shares and is expected be registered in May 2020.

b. Type of Stock

April 18th, 2020 Unit: Shares

Type of stock	Authorized Capital			Remarks
	Outstanding Shares	Un-issued Shares	Total	
Common shares	78,105,900 (Including Treasury Shares 1,000,000)	21,894,100	100,000,000	Note

Note: The retained capital of 6,000,000 shares is used for the issuance of employee stock subscription warrants.

c. Shelf Registration: Not applicable.

(2) Shareholder Structure

April 18th, 2020 Unit: Shares; Person

Shareholder Structure / Amount	Government Agencies	Financial Institutions	Other Juridical Persons	Individuals	Foreign Institutions & individuals	Total
Number of Shareholders	-	4	47	8,085	29	8,165
Shareholding (shares)	-	1,608,201	6,572,410	33,858,239	36,067,050	78,105,900
Percentage	0.00%	2.06%	8.41%	43.35%	46.18%	100.00%

(3) Distribution of shareholding

April 18th, 2020 Par value of NT$10 per share

Class of Shareholding	Number of Shareholders	Shareholding (shares)	Percentage
1 - 999	290	41,965	0.05%
1,000 - 5,000	6,876	11,684,291	14.96%
5,001 - 10,000	518	4,250,606	5.44%
10,001 - 15,000	125	1,640,436	2.10%
15,001 - 20,000	106	1,936,824	2.48%
20,001 - 30,000	87	2,221,014	2.85%
30,001 - 40,000	32	1,157,577	1.48%
40,001 - 50,000	29	1,337,245	1.71%
50,001 - 100,000	43	3,166,133	4.05%
100,001 - 200,000	30	4,172,049	5.34%
200,001 - 400,000	14	3,520,123	4.51%
400,001 - 600,000	4	1,897,000	2.43%
600,001 - 800,000	1	628,000	0.81%
800,001 - 1,000,000	1	1,000,000	1.28%
1,000,001 or more	9	39,452,637	50.51%
Total	8,165	78,105,900	100.00%

(4) Major Shareholders

April 18th, 2020；Unit: Shares

Shareholding / Shareholders	Shareholding (shares)	Percentage
Heritage Bay Limited	18,676,413	23.91%
Full Guest Investments Limited	4,875,458	6.24%
Denis Luo	4,583,587	5.87%
Triumph Partners Limited	3,101,000	3.97%
Deutron Electronics Corp	2,500,000	3.20%

The investment account of Full Guest Investments Limited under the custody of Taishin International Commercial Bank as trustee	1,744,000	2.23%
Chung-Jen Huang	1,361,179	1.74%
Peter Zung	1,311,000	1.68%
Taiwan Life Insurance Co., Ltd.	1,300,000	1.66%
Tsang-Hai Lin	628,000	0.80%

(5) Market Price, Net Worth, Earnings, Dividend and Related Information over the Last Two Years

Unit: NT$

Project \ Year			2018	2019	Current fiscal year up to March 31st, 2020 (Note 5)
Market Price Per Share	Highest		179.00	117.50	119.00
	Lowest		65.00	69.20	59.70
	Average		98.58	87.76	103.42
Net value per share	Before distribution		27.87	27.78	-
	After distribution(Note 1)		25.87	（Not6）	-
EPS	Weighted Average Shares		77,827,900	78,080,900	-
	EPS		2.17	2.01	-
Dividends per share	Cash Dividends		2.00	2.00（Note 6）	-
	Stock dividends	Dividends from retained earnings	-	-	-
		Capital Surplus Distribution	-	-	-
	Accumulated undistributed dividend		-	-	-
Analysis of ROI	Price Earnings ratio (Note 2)		45.43	43.66	-
	PriceDividend ratio (Note 3)		49.29	43.88（Note 6）	-
	Cash Dividend Yield (Note 4)		2.03%	2.28%（Note 6）	-

Note 1: This number has been adjusted based on the resolution of shareholders' meeting held in the following year.
Note 2: P/E Ratio = Average closing price for each share in the year/earnings per share
Note 3: Price/Dividend ratio = Average closing price per share of the year/Cash dividends per share
Note 4: Cash dividend yield = cash dividend per share / current year average per share closing price.
Note 5: The net worth and earnings per share as of the printing date are calculated according to the
Note 6: Company's 2020 first quarter financial statement which had been reviewed by CPA.
Note 7: Pending on decision of Shareholders' Meeting

(6) Dividend policy of the company and its implementation status

a. Dividend policy

Dividend and dividend distribution policy, the distribution of earnings can be obtained by means of stock dividends or cash dividends. Considering the company is at its operating growth stage and taking into account the interests of the company's shareholders and long-term and short-term capital and business planning, when the distribution of earnings is available, the cash dividend shall not be less than 50% of the total dividends.

b. Implementation status: The company's Board of Directors resolved to issue a shareholder dividend of NT$2 per share on March 17th, 2020. The proposal will be submitted to the shareholders' meeting on June 16th, 2020. The proposal will be implemented in accordance with the relevant regulations.

(7) The impacts of issuing stock dividends in this Shareholder's Meeting on the company's operational performance and dividend per share: Not applicable.

(8) Compensations for employees and Directors

a. The percentages or ranges of employee and Director compensation is as set forth in the company's Articles of Incorporation.
According to the company's Articles of Incorporation, the company shall allocate the earnings for the year to be no more than 3% as remuneration for Directors and not less than 0.005% and not greater than 25% as remuneration for employees.

b. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period: The 2018 cash remuneration distributable to employees passed by the company on March 17 th, 2020 was accrued at a certain proportion according to the profitability of the current year. If the actual distributed amount is different from the estimated number, it will be treated as changes in accounting estimates and recognized as profit or loss for the next year.

c. Information on the proposed employee remuneration approved by the Board of Directors:

(a) If the employee's remuneration and director's remuneration distributed in cash or stock differs from the annual estimated amount of the recognized expenses, the difference, cause and treatment shall be disclosed:
On March 17 th, 2020, the company's Board of Directors resolved to distribute NT$16,030 thousand for employee remuneration and NT$2,500 thousand for Directors' remuneration for year 2019. Same as the 2019 estimated amount without any difference.

(b) The employee compensation paid by shares as the proportion of the sum of net profit of parent company only or individual financial statements plus the total employee compensation for the current period: This year, the company does not plan to distribute employee compensation by shares, so it is not applicable.

d. The distribution of the previous year's employee profit sharing bonus and directors'remuneration (including the shares, amount and share price). If there is any difference between the distributed amount and the estimated amount, the variance, reason and handling status shall be disclosed：

	Resolution of the Board (March 8th, 2019)	Actual distributed amount
	Amount (NTD)	Amount (NTD)
Directors' Remuneration	2,500,000	2,500,000
Employee Remuneration	21,206,000	21,206,000
Total	23,706,000	23,706,000

(9) Company share repurchase status:

Status of share buyback by the company：

March 31st, 2020

Number of Repurchase	First Repurchase
The Resolution Date of the Board of Directors	August 12th, 2019
Purpose of Repurchase	Shares Transferred to Employees
Repurchase Period	August 14th, 2019 to October 09th, 2019
Price Range of Shares to be Repurchased	NT$53 to NT$115
Estimated type and number of shares repurchased	1,000,000 common shares
Actual type and number of shares repurchased	1,000,000 common shares
Actual repurchase amount	NTD 96,925,600
Average repurchase price per share	NT$96.93
Number of Retired Shares and Shares Transferred to Employees	None
Proportion of Cumulative Number of Shares Held to Total Number of Shares Issued (%)	1.28%

2. Corporate Bonds: None.

3. Preferred Stocks: None.

4. Status of GDR/ADR: None.

5. Employee Stock Options:

(1) The Status of Employee Stock Options：

March 31st, 2020

ESOP Granted		1st Round on 2012	2nd Round on 2012	1st Round on 2013	2nd Round on 2013
Date of Effective Registration		May 16th , 2012	May 16th , 2012	July 29th , 2013	July 29th , 2013
Issuance Date		June 20th , 2012	November 30th , 2012	August 15th , 2013	June 10th , 2014
Number of Options Granted		1,700 units	1,500 units	450 units	900 units
Percentage of Shares Exercisable to Outstanding Common Shares (Note 2)		2.18%	1.92%	0.58%	1.15%
Option Duration		10 years			
Type of shares underlying the options		Issue of new shares			
Vesting Schedule		For a period of two years: 50% for a period of three years: 75% for a period of four years: 100%			
Sheares exercised		1,299,000 shares	988,000 shares	335,000 shares	900,000 shares
Value of Shares Exercised		NT$13,639,500	NT$19,266,000	NT$11,055,000	NT$41,400,000
Shares Unsubscribed		128,000 shares	477,000 shares	100,000 shares	0 shares
Exercise Price Per Share	Original Price	NT$10.50	NT$19.50	NT$33.00	NT$46.00
	After adjustment	NT$10.50	NT$19.50	NT$33.00	NT$46.00
Percentage of Shares Unexercisable to Outstanding Common Shares (%) (Note 2)		0.16	0.61	0.13	-
Impact to Shareholders' Equity		The company attracts and retains the professional talents required by the company, and enhances the company's coherence and sense of belonging among employees, jointly creating the interests of the company and shareholders, and has a positive impact on shareholders' equity.			

Note 1: Adopted with approval at the same time when the company went public.

Note 2: Based on the number of 78,105,900 shares outstanding.

(2) The managers who obtained the employee stock option and the name, of the top ten employees who have obtained the stock option and amount of NT$30 million or more.

a. List of Managers and Top 10 Employees Participating in Employee Stock Option Plan:

March 31st, 2020 Unit: Shares; NT$

<table>
<tr><th rowspan="2"></th><th rowspan="2">Title</th><th rowspan="2">Name</th><th rowspan="2">Number of Options shares</th><th rowspan="2">% of shares exercisable to outstanding Common Shares</th><th colspan="4">Options exercised</th><th colspan="4">Options unexercised</th></tr>
<tr><th>shares exercised</th><th>Price of shares exercised</th><th>Total value of shares exercised</th><th>% of shares exercisable to outstanding Common Shares</th><th>shares unexercised</th><th>Price of shares unexercised</th><th>Total value of shares unexercised</th><th>% of shares unexercisable to outstanding Common Shares</th></tr>
<tr><td rowspan="7">Managers</td><td>President</td><td>James He</td><td rowspan="7">0</td><td rowspan="7">0%</td><td rowspan="7">10,000</td><td rowspan="7">19.5</td><td rowspan="7">195,000</td><td rowspan="7">0.013%</td><td rowspan="7">3,000</td><td rowspan="7">19.5</td><td rowspan="7">58,500</td><td rowspan="7">0.004%</td></tr>
<tr><td>Chief Technology Officer</td><td>Ming Li</td></tr>
<tr><td>Vice President</td><td>Denis Luo</td></tr>
<tr><td>Vice President</td><td>Peter Zung</td></tr>
<tr><td>Chief Financial Officer</td><td>Steffi Huang</td></tr>
<tr><td>Director</td><td>Henry Chien</td></tr>
<tr><td>Senior Director</td><td>Bryce Li</td></tr>
</table>

b. The manager who obtained the employee stock option and the name, of the top ten employees who have obtained the stock option and amount of NT$30 million or more: None.

(3) Restricted employee shares: None.

6. Status of new shares Issuance in Connectionwith Mergers and Acquisitions: None.

7. Financing Plans and Implementation: Not applicable.

V、 Operations Highlights

1. Business Activities

(1) Business Scope:

a. The main content of the company's business operations

(a) CC01080 Electronic Components Manufacturing

(b) F401010 International Trade

(c) I501010 Product Design

b. Proportion of business

Products	Weighting
CMOS Image Sensor /Sensor/Module/Design	100.00%

c. Products (services) currently offered by the company

The company is an IC design company that develops and sells CMOS Image Sensors (complementary metal oxide semiconductor image sensor), which are used in targe applications on Survilliance camera, Automotive camera, consumer image products and biomedical device. We also try o develp other new CIS applications like Industrial AOI camera market.

d. New product development plan:

The core competence of the company is the research and development of the sensing circuit, analog, digital and mixed signal circuit design capability in the CMOS image sensors. Another key success factor is to provide customers with the best solution based on the own technical customization capabilities, from circuit design, wafer process technology, to optical simulation, developing and providing specific application CMOS image sensors. The company has complete technical capabilities and works with leading wafer foundry partners to meet the needs of customers. Future technology roadmap includes:

(a) High-performance CMOS Image Sensor.

(b) High-resolution CMOS Image Sensor.

(c) Global Shutter CMOS Image Sensor.

(d) Low Power Consumption CMOS Image Sensor.

(e) Special application sensor design and development.

(2) Industry Overview

a. Industry Status and Trends

(a) Overview of the semiconductor market

Semiconductor products mainly include four types: integrated circuits (IC), discrete components (Discrete), sensing components (Sensors) and optoelectronic components (Optoelectronics). The semiconductor market demand was increased a lot in 2019 because of several new applications, like AI, and 5G new product equipments., ets. Since 2020, the whole market and economic had big impact by COVID-19 event, some new product and development will be impact and delayed.

(b) Overview of the IC design industry

The number of IC design companies in Taiwan is stably growing due to the local comprehensive semiconductor ecosystem and the rich experience in the IC design industry. Taiwan is currently the top 3 region in the world, in terms of the number of IC design companies, second only to the United States and China. There are two main reasons why Taiwan's IC design industry is booming. Firstly, the semiconductor industry is complete and the industry scale is large. IC design companies can leverage Taiwan local semiconductor food chain such as wafer manufacturing, packaging, and testing. Besides, because it is closer to the local IT downstream industry chain, the IC design industry is naturally booming, and the IC design companies have more competitive advantages than foreign IC design companies. Therefore, the production of Taiwan's IC design industry's is the second largest in the world in 2018, followed by the United States.

(c) Overview of CMOS Image Sensor Market

CMOS (Complementary Metal-Oxide-Semiconductor) is a basic component of the integrated circuits, which is by NMOS (n-type MOSFET) and PMOS (p-type MOSFET) on the silicon wafer. NMOS and PMOS have complementary physical properties, so they are called CMOS which can be used to produce static random access memory (SRAM), MCU, microprocessors, digital electronic systems. and optical instruments.

CMOS has the advantage of consuming energy only when the transistor needs to be switched on and off, so it is very power-saving and generates less heat. CMOS is the most most common semiconductor process. According to market reserch company IC Insight report, global CIS market size will reach 15.5 Billion USD in 2019, and have 9% increase compare to 2018.

(d) Overview of the biochip market

Biochip refers to different chemical materials such as glass, plastic, silicon conductor, etc. that use the modern electrical, mechanical and optical techniques to allow the biomolecules to be immobilized on the surface. and the biological experiments that previously needed to be performed in an entire laboratory can be performed on a single wafer now. The experimental method can greatly reduce the use of samples and experimental consumables, and the accuracy of the experimental results is very good, so it can quickly generate a large amount of reliable data. Currently, the test methods have become mainstream for biomedical research.

The development of biochips began in the late 1980s, when scientists from many universities, research institutes, and companies in Europe and the United States devoted themselves to the development of related technologies. Biochips, as the name implies, have many similarities with computer chips, as they are miniaturized chips that can be synchronized and paralleled to perform a large number of analytical studies in a very short time, and many biochips are manufactured by the technologies used by computer chips.

For example, in the past, only one gene or a few genes could be detected at a time when scientists studied gene expression. If multiple genes or proteins need to be studied, the experimental procedure is time-consuming and requires a lot of human resources. With the invention of biochips, scientists can simultaneously detect tens of thousands of genes or proteins, so biochips have become a tool for genomics and proteomics research.

Biochips are currently very popular areas of research and development, and there are mainly three types of products: (1) DNA Microarrays, (2) Lab on a Chip, (LOAC), and (3) Protein Microarray. In recent years, by the technology improvement and the cost reduction, the micro reaction space can be designed on the biochips to purify cells and other biochemical molecular, so the biochips have great potential.

With the growing demand for DNA sequencing, the high cost and time-consuming problems generated by the use of Sanger Method decoding limited research and development of DNA sequencing, so new sequencing techniques are being rearched and developed. With the improvement of molecular biotechnology, a more efficient sequencing method has been developed, namely Next Generation Sequencing (NGS). In the Sanger sequencing method, the DNA in the target is amplified, and long fragments (about one thousand nucleobase pairs) are read. But the Next Generation DNA Sequencing (NGS) is to completely fragment the DNA (about 300-800 nucleobase pairs) and do the sequencing, and NGS becomes the major technology in DNA sequencing.

At present, Illumina and Thermo Fisher own the major market share in the global Next Generation DNA Sequencing market and followed by other manufacturers such as Roche and PacBio. Among them, Illumina had 71% of the overall market in 2014 as Illumina's sequencing technology was the most mature in the industry. The Ion Torrent technology platform's products, launched by Thermo Fisher after it acquired Life Technologies, had a 20% market share, followed by Roche's 5%, PacBio's 3%, and other suppliers account for 1%.

The new generation DNA sequencing drastically reduces DNA sequencing cost. The HiSeq X Ten sequencing device introduced by Illumina in early 2014, can resequence individual genome sequences at a cost of US$1,000 within a day. The next generation of equipment is expected to reduce the cost to around US$900. Research institutes, pharmaceutical companies, and testing service companies have been investing in related equipment purchases, allowing the next-generation DNA sequencing market to grow rapidly.

Another market driver is the FDA's regulations for new drug development to be accompanied by the development of companion diagnostic reagents. Through the sequencing of DNA maps, it attempts to identify more relevant genes and improve the efficiency of new drug development and effective drug usage. Due to the development of next-generation DNA sequencing, nonintrusive prenatal fetal genomic detection has also developed rapidly. In the past, amniocentesis was required to obtain a prenatal examination of suspension cells. But by capturing fetal free cells or free DNA in the blood of pregnant women, the whole genome of the fetus can be obtained by DNA sequencing and analysis. The result can be obtained around the 10^{th} week of pregnancy instead of previous 16^{th} week, significantly reducing the risks that may occur. Additionally, another expected popular application is the cancer detection. Due to the complexity of cancer detection targets, multiple genetic locations need to be analyzed, and new genetic variants will appear between treatments. The next generation of DNA sequencing combined with liquid slicing technique can meet such continuous and extensive diagnostic and monitoring needs; however, because cancer diagnosis and treatment require long-term clinical verification, it is still mainly used in the patients failed with the first-line and second-line cancer drugs. However, the improved therapeutic benefits of this testing service still make the prospect of applying DNA sequencing services to cancer detection promising. This shows that, in the future, with a large number of applications of next generation DNA sequencing, there will be many changes in the clinic.

b. Correlation among upstream, midstream, and downstream of the industry

The image sensor industry can be categorized as shown in the following tables

Area CMOS Image Sensor:

Upstream, Midstream, and Downstream	Item	Domestic Manufacturers
Upstream	IC design	SOI, PXI, NOVATEK, HIMAX, etc.
Midstream	Mask and wafer manufacturing	TSMC, UMC and Powerchip / PTC, etc.
Downstream	IC packaging and testing	ASE, SPIL, KYEC, TONG SHING, and VisEra, etc.

Linear CMOS Image Sensor:

Upstream, Midstream, and Downstream	Item	Domestic Manufacturers
Upstream	IC supply	SOI, PXI, etc.
Midstream	Module design and manufacturing	CISM: ATII, Lite-On (South), and CSI, etc. CCM: Lite-On (South), and TONG SHING, etc.
Downstream	System design, manufacturing, and sales	Systems vendors.

c. Product Development Trends

The Area CMOS Image Sensor market is highly competitive. In addition to the good image quality, the price and customer service are key success factors. The main product development plans are as follows:

(a) Area CMOS Image Sensor:

Recently, in the surveillance security systems, digital IP cameras and ccHDtv are moving toward higher resolutions as traditional CCDs have disappeared. The mainstream products are moving from 720P (HD) towards 1080P (FHD) and 4 million / 5 million pixels, driving the trend of HD surveillance in the future. Besides, in the car electronics, the automotive Around View Monitoring (AVM), and driver assistant system are also moving towards 720P/1080P and higher resolution.

The company will also develop higher-end products such as higher dynamic range, anti-noise, high-temperature range, and other high-end processes for high-definition imaging products to provide customers with more cost-effective products.

d. Competitions:

(a) Area CMOS Image Sensor:

In recent years, with the stagnation of specifications in the mobile phone market, various manufacturers have tried to have differentiation for camera functions. 3D sensing, the dual lens, and even multi-lens design are new areas. Also this is expected to drive the demands and the higher specification requirement for sensors.

In the surveillance applications, as the requirement of IP cameras and HDCCTV are getting higher, the demand for Full HD and higher resolution sensors has been increasing rapidly. In addition to the introduction of more cost-effective products in the second half of 2019, the company ncluding 960P, 1080P, 4 Meag and 5 Mega new products. And plan to launch more high performance products like 4K/2K resolution product to the market expect to cooperate with customers with higher value-added products.

(3) Technology and R&D Overview

In 2019 and from January 1st, 2020 to the printing date of this annual report

a. R&D spending

Unit: NT$ thousands

Year	2019	As of April 28th, 2020
Research and development expenses	240,095	74,550

b. Developed or on-going technologies or products

(a) Development of the new generation, high-performance/cost optimized Area CMOS Image Sensor.

(b) Design and process development of specific application sensors.

(4) Short/long-term business development plans

a. Short-term marketing development plans

(a) Expand the channels in the existing markets and actively develop various potential markets.

(b) Actively develop domestic and overseas major customers to increase market share.

(c) Enhance the services of existing customers to maintain long-term relationships.

b. Long-term marketing development plans

(a) Strengthen the analysis of market change (consumer and product trends) to provide the customer-oriented products to strengthen the customer relationship

(b) Enhance international marketing capabilities and strive to cooperate with world-class companies.

(c) Actively develop new markets and applications.

2. Market and Sales Overview

(1) Market Analysis

a. Sales by regions for major products and services

Unit: NT$ thousands; %

Region/Year		2019	
		Amount	%
External sales	Asia	2,130,450	92.86
	Others	78,194	3.41
	Sub-total	2,208,644	96.27
Domestic Sales		85,466	3.73
Total		2,294,110	100.00

b. Market share

Based on the stable increasing demand from consumer base IP camera and Surveillance camera, the company's operations are on the right track. With the introduction of more new products in 2019, the company can provide customers with more comprehensive products and services. There will be significant market share growth in the future.

c. Market supply and demand, and future growth

According to IC Insight research data, the CIS demand in 2019 was highly increase 9% compare to 2018. For 2020, the CIS shipment will increase by consumer base IP camera , and automotive camera demand and the accelerated development of multiple product applications, the overall image sensor shipments are expected to increase gradually.

d. Competitive Niches

(a) Excellent management and technical teams

The company focuses on the design and development of CMOS Image Sensor and that R&D capacity and technical level have reached the same level as other world-wide leading CMOS manufacturers. The company plans to provide the high quality and high performance products of Area CMOS Image Sensor for high-end surveillance and specific application sensors market.

(b) Stable partners

All the Taiwan CMOS Image Sensor companies are fabless IC design companies. wafer plants, and hence, the wafer process technology and the yield of packaging and testing are the key factors that affect the IC mass production schedule. The company works closely with Powerchip and TSMC in the CMOS Image Sensor area to provide the best technical and mass production support. The company maintains good relationships with the IC testing and packaging companies and thus has more protection in product yield and delivery.

(c) Mutual benefits from long-term customers

The company's sales model relies on cooperation with semiconductor distributors and direct sales to downstream system integrator customers. In addition to expanding the existing market channels and actively seeking more business in the potential markets, the company also provides technical services to assist customers to quickly move the products into production and establish stable relationships with customers.

(d) Fast access to the market

The company has close relationships with the top tier surveillance vendors. By cooperating with the worldwide leading manufacturers, it can better understand the market trend and develop new products in advance to meet customer and market needs. In recent years, the company has cooperated with the world's leading medical equipment companies to develop DNA sequencing chips. With the company's professional R&D team and the best production support from the foundry partners, the company's products can quickly enter mass production and make delivery in the first year of cooperation, shortening the time-to-market of the product.

(e) Global manufacturing base

Taiwan is a heart area for the production of electronic products in communications, information and consumer electronics sectors, such as mobile phones, tablet devices, PC cameras, digital cameras, and other products with large shipments and high global market share. For the company, the customer service, delivery and cost are more competitive than those of the foreign CMOS Image Sensor design companies or the international Integrated Device Manufactures (IDM), so it has a competitive niche due to the production base is nearby.

e. Favorable Development, Unfavorable Factors, and Countermeasures

(a) Favorable development

(I) The demand for image sensors market continues to increase

With the development and advancement of technology, the popularity of smart living and the Internet of Things has enabled countries to continue to have more demands for various video devices. Mobile devices, tablet PCs, wearable product applications (such as Google Glass, VR, AR) and other mobile devices are driving the demands for image sensors. The market of dash cams, surveillance cameras, etc. are also growing because of consumers' awareness of security. At the same time, with the technology breakthrough in ADAS, car image, DNA sequencing, and other application areas, the demand for image sensors will be expected to grow year by year.

(II) Domestic semiconductor foundry supply chain is complete, providing local IC design companies with full logistics support.

Taiwan is the heart of global wafer foundry, with high market share, high capacity utilization, and complete process technology and experience. Taiwan's semiconductor industry is unique in its vertical integration. The entire IC industry supply chain features a very fine vertical integration and well-organized structure, which makes the company's products have certain advantages in terms of timekeeping and cost control.

(III) Rich industry experience

The company is a CMOS image sensor IC design company. The R&D team has rich experience and can adjust the product portfolio in time according to market trends. The company is also actively expanding its high-resolution market to provide customers products with higher cost-performance ratio, and to continue to increase the use of existing products and extend existing technologies

(b) Unfavorable factors and countermeasures

(I) Market competition

With technology development, CMOS image sensors are becoming more and more widely used (such as mobile phones, consumer electronics, etc.). As the market demand continues to expand, the number of manufacturers entering this sector is increasing.

<u>Corresponding countermeasures:</u>

i. Based on the company's technological advantages, the company would actively develop diversified, high value-added niche products to enrich product portfolio, increase profit margins, and strengthen its market competitiveness.

ii. From 2016. SOI was listed in TSR report to be the major Surveilliance sensor provider in the market. The performance and quality of the company's products have been widely accepted by the market

iii. In addition to enhancing product technologies, the company also provides after-sales services to understand the customer's needs for the future.

(II) The products are mainly exported abroad and would be exposed to the risk of exchange rate fluctuations.

Most of the company's products are exported to mainland China and are mainly denominated in US dollars. The main purchase item is wafer and wafer fabrication is also denominated in US dollars. Therefore, the foreign currency receivables and payables could be offset and FX risk is hedged, except foreign exchange gains and losses on foreign currency net assets. The fluctuation in exchange rates can, therefore, have a certain degree of impact on the company.

Countermeasures:

i. Taking advantage of the characteristic of natural hedging, the foreign currency cash sales of foreign sales products should be used for domestic and foreign procurement and outsourcing processing to generate foreign currency payables. Therefore, it is only necessary to assess the future exchange rate fluctuations against the foreign currency net assets. If there is a need for hedging, it is necessary to use various financial instruments such as currency forward contracts as needed to avert exchange rate fluctuation risks.

ii. The Finance department can instantly understand the changes in exchange rates and stay in close contact with the foreign exchange departments of financial institutions to fully grasp the trend and changes in exchange rates to actively respond to the negative impact of exchange rate fluctuations.

(2) Major applications and manufacturing process of the primary products

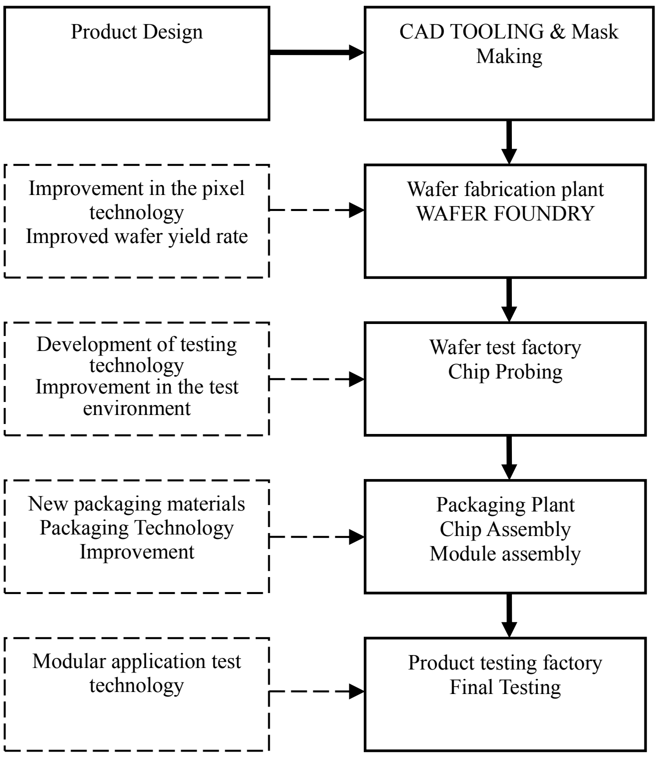
a. Major uses of the primary products

Main Products	Usage
CMOS Image Sensor	Used in video products such as monitoring devices, Automotive AVM and drive recording camera, genetic sequencing testing chip

b. The production process of main products

(a) CMOS Image Sensor :

The company is a IC design company. The overall manufacturing process includes product design, IP acquisition, wafers from wafer foundry, wafer



testing, packaging, and product testing. In addition to product design and IP obtaining, we will outsource the production of wafer fabrication, wafer testing, product packaging, and product testing to dedicated OEMs. This not only reduces investment in production equipment but also increases production efficiency. Relevant engineering personnel can also focus more on the development and improvement of production technology to improve quality and yield rate.

(3) Supply Status of Main Materials

Name of raw materials	Suppliers	Supply Situation
Wafer	Powerchip Semiconductor Manufacturing Corp. and TSMC North America	Good

The main raw material of the company is wafer, and the main suppliers are Powerchip Semiconductor Manufacturing Corp. and TSMC North America. The product quality has been stable, and the production capacity and delivery capacity are highly consistent. The cooperation with each other is good, and no shortage of supply conditions.

(4) Major Suppliers and Customers in the Recent Two Years:

a. Major Suppliers

Unit: NT$ thousands; %

Item	2018				2019				2020 Q1			
	Suppliers	Purchasing Value	Proportion of Total Purchasing for the year (%)	Relation with SOI	Suppliers	Purchasing Value	Proportion of Total Purchasing for the year (%)	Relation with SOI	Suppliers	Purchasing Value	Proportion of Total Purchasing for the year (%)	Relation with SOI
1	Powerchip Technology Corporation	1,121,438	99.38	Yes	Powerchip Semiconductor Manufacturing Corp.	1,032,202	79.86	Yes	Powerchip Semiconductor Manufacturing Corp.	419,855	99.18	Yes
2	Maxchip Electronics Corp.	1,711	0.15	Yes	Powerchip Technology Corporation	239,460	18.53	Yes	Powerchip Technology Corporation	-	-	Yes
3	Others	5,321	0.47	-	Others	20,785	1.61	-	Others	3,471	0.82	-
	Net purchase	1,128,470	100		Net purchase	1,292,447	100		Net purchase	423,326	100	

b. Major Customers

Unit: NT$ thousands; %

Item	2018				2019				Current year up to March 31st, 2020			
	Customer	Sales Amount	Proportion of Total Sales for the year (%)	Relation with SOI	Customer	Sales Amount	Proportion of Total Sales for the year (%)	Relation with SOI	Customer	Sales Amount	Proportion of Total Sales for the year (%)	Relation with SOI
1	Customer A	1,445,118	71.04	-	Customer A	1,670,421	72.81	-	Customer A	476,870	79.51	-
2	Customer B	240,987	11.85	-	Customer B	202,974	8.85	-	Customer B	-	-	-
3	Customer C	86,531	4.25	-	Customer C	160,929	7.01	-	Customer C	55,241	9.21	-
4	Customer D	46,503	2.29	-	Customer D	85,007	3.71	-	Customer D	17,692	2.95	-
5	Customer E	-	-	-	Customer E	39,302	1.71	-	Customer E	423	0.07	-
6	Customer F	7,122	0.35	-	Customer F	31,731	1.38	-	Customer F	7,382	1.23	-
7	Customer G	29,738	1.46	-	Customer G	22,188	0.97	-	Customer G	6,374	1.06	-
8	Customer H	20,440	1.00	-	Customer H	20,540	0.90	-	Customer H	4,491	0.75	-
9	Others	157,828	7.76	-	Others	61,018	2.66	-	Others	31,294	5.22	-
	Net sales	2,034,267	100		Net sales	2,294,110	100		Net sales	599,767	100	

The main customer is a distributor, and the change in ranking is mainly due to the adjustment of sales ratio on the promotion of customer business.

(5) Production volume and value over the last Two Years

Unit: NT$ thousands; 1,000 pcs

Production volume and value / Year / Main Products (or Departments)	2018			2019		
	Production Capacity	Quantity	Amount	Production Capacity	Quantity	Amount
CMOS Image Sensor Components	-	73,494	2,010,622	-	84,285	2,257,305

(6) Sales volume and value over the last Two Years

Unit: NT$ thousands; 1,000 pcs

Sales volume / Year / Main Products (or Departments)		2018				2019			
		Domestic		Export		Domestic		Export	
		Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
CMOS Image Sensor Components	IC	1,063	46,504	72,278	1,846,205	2,186	85,007	89,751	2,126,888
	Wafer	-	-	1	45,595	-	-	-	14,834
	Design	-	2	-	95,961	-	459	-	66,922
Total		1,063	46,506	72,279	1,987,761	2,186	85,466	89,751	2,208,644

3. Employees

Unit: Person

Year		2018	2019	As of April 28th , 2020
No. of employees	R&D	32	37	40
	Managerial, Sales & Marketing	16	14	13
	Manufacturing	-	-	-
	Total	48	51	53
Average age		38.31 years old	37.33 years old	37.36 years old
Average Years of Service		5.61 years	5.40 years	5.28 years
Level of Education (%)	Ph.D.	2.08%	1.96%	1.89%
	Master's degree	54.17%	52.94%	54.71%
	Bechelor's degree	43.75%	45.10%	43.40%
	Associate's degree	-	-	-
	Less than associate's degree	-	-	-

4. Environmental Protection Expenditures

The company is a fabless IC Design house that outsources its production activities to qualified wafer foundry, testing and packaging partners. No environmental penalties were incurred in the past years and there are no foreseenable environmental contemination risks in the future.

5. Labor Relations

(1) Employee benefits, continuing education and training, and the state of the retirement system and the status of implementation of the labor management agreements

1. Employee benefits

(a) The company established the employee welfare committee in June 2004, and the welfare matters are supervised by the employees and the members of employee welfare committee.

(b) The company plans employee group welfare insurance to make up for the shortage of labor insurance. The employees themselves benefit from the benefits, and they also benefit the spouses and children of the employees, so that both the colleagues themselves and the families can receive the benefits.

(c) The company has an annual health check of the in-service employees. All employees of the company participate in labor insurance and health insurance, and all welfare benefits are handled in accordance with relevant regulations.

2. Employee continuing education and training

To enhance the quality of human resources and development advantages, the company has established educational and training methods to encourage employees to participate in various training courses and technical seminars to maintain the foundation of the company's sustainable operation.

3. Retirement system and its implementation status

The retire system of employees of the company shall be conducted in accordance with the provisions of the Labor Standards Act. The Labour Pension Supervisory Committee was established in June 2004, and the labor retirement reserve fund was set aside on a monthly basis in accordance with the law. In the name of the committee, it is deposited in the Supervisory Account of the Central Trust Bureau for its management and use. In accordance with the Labor Pension Act, starting from July 1st, 2005, the company would pay the labor retirement allowance monthly for the employees, choosing and applying the new system to the individual account of the Labor Insurance Bureau.

4. Agreements between the employer and employees

The harmonious labor relationship has always been one of the company’s directions. The company has put great emphasis on employee welfare and provides excellent working environment. As of now, there is no loss arising from labor disputes, and the company has been smooth channels to maintain the employees' equity.

(2) Total losses arising from employee-employer disputes for the most recent fiscal year up to the publication date of this annual report: None.

6. Important Contracts

As of 28th April 2020, the company had the following important contracts:

Contract Type	Contractor	Contract Period	Main Content	Restrictions
Technical Service	Nueva Imaging Inc.	As Agreed on Contract	Design services of CMOS Image Sensor	None
Technical Service	Silicon Optronics (Shanghai) Co, Ltd.	As Agreed on Contract	Line Design Services of CMOS Image Sensor	None

VI、 Financial Information

1. Five-Year Financial status

(1) Condensed Balance Sheet by adopting IFRSs-Consolidated

Unit: NT$ thousands

Item \ Year		Financial information for the past five years				
		2015	2016	2017	2018	2019
Current assets		500,281	762,916	957,576	2,142,403	1,651,853
Property, plant and equipment		29,534	31,396	38,775	48,811	530,417
Intangible assets		295,035	268,778	262,287	234,587	211,280
Other assets		11,026	11,315	11,742	15,223	43,002
Total assets		835,876	1,074,405	1,270,380	2,441,024	2,436,552
Current liabilities	Before distribution	140,766	230,431	294,238	271,641	339,054
	After distribution	140,766	331,309	430,334	427,596	(Note 2)
Non-current liabilities		676	945	-	41	17,378
Liabilities total	Before distribution	141,442	231,376	294,238	271,682	356,432
	After distribution	141,442	332,254	430,334	427,637	(Note 2)
Equity attributable to the parent Company						
Capital stock		661,069	669,359	679,809	778,279	780,809
Capital surplus		20,760	30,179	52,187	1,124,721	1,131,702
Retained earnings	Before distribution	9,897	141,518	244,672	265,952	266,969
	After distribution	9,897	40,640	108,576	109,997	(Note 2)
Other equity		2,708	1,973	(526)	390	(2,365)
Treasury stock		-	-	-	-	(96,995)
Non-controlling interest		-	-	-	-	-
Total equity	Before distribution	694,434	843,029	976,142	2,169,342	2,080,120
	After distribution	694,434	742,151	840,046	2,013,387	(Note 2)

Note 1: 2015~2019 audited financial statements.
Note 2: Not yet distributed.

(2) Condensed Income Statement adopting IFRSs -Consolidated

Unit: NT$ thousands

Year / Item	Financial information for the past five years				
	2015	2016	2017	2018	2019
Operating revenues	702,480	1,405,770	1,714,565	2,034,267	2,294,110
Gross profit	232,524	402,038	500,028	469,799	457,531
Operating income	14,996	141,569	247,603	180,054	156,051
Non-operating income and expenses	(271)	9,592	(8,096)	9,919	26,059
Income before tax	14,725	151,161	239,507	189,973	182,110
Income from continuing operations	9,962	131,678	204,087	157,432	156,010
Income from discontinued operations	-	-	-	-	-
Net income	9,962	131,678	204,087	157,432	156,010
Other comprehensive income(loss)	938	(792)	(2,554)	860	(1,793)
Total comprehensive income	10,900	130,886	201,533	158,292	154,217
Net profit attributable to the parent Company	-	-	-	-	-
Net profit attributable to the non-controlling interest	-	-	-	-	-
Total comprehensive income attributable to the owner of the parent Company	-	-	-	-	-
Total comprehensive income attributable to the non-controlling interest	-	-	-	-	-
Earnings per share	0.15	1.98	3.02	2.17	2.01

Note 1: 2015~2019 audited financial statements.

(3) Condensed Balance Sheets – IFRS (Parent Company Only)

Unit: NT$ thousands

Item \ Year		Financial information for the past five years				
		2015	2016	2017	2018	2019
Current assets		475,237	730,748	934,379	2,102,546	1,601,440
Property, plant and equipment		28,677	30,645	38,134	48,250	529,833
Intangible assets		12,940	9,489	6,039	3,309	516
Other assets		318,492	302,587	291,402	283,954	291,091
Total assets		835,346	1,073,469	1,269,954	2,438,059	2,422,880
Current liabilities	Before distribution	140,236	229,495	293,812	268,676	333,339
	After distribution	140,236	330,373	429,908	424,631	(Note 2)
Non-current liabilities		676	945	-	41	9,421
Liabilities total	Before distribution	140,912	230,440	293,812	268,717	342,760
	After distribution	140,912	331,318	429,908	424,672	(Note 2)
Equity attributable to shareholders of parent the company						
Capital stock		661,069	669,359	679,809	778,279	780,809
Capital surplus		20,760	30,179	52,187	1,124,721	1,131,702
Retained earnings	Before distribution	9,897	141,518	244,672	265,952	266,969
	After distribution	9,897	40,640	108,576	109,997	(Note 2)
Other equity interest		2,708	1,973	(526)	390	(2,365)
Treasury stock		-	-	-	-	(96,995)
Non-controlling interest		-	-	-	-	-
Total equity	Before distribution	694,434	843,029	976,142	2,169,342	2,080,120
	After distribution	694,434	742,151	840,046	2,013,387	(Note 2)

Note 1: 2015~2019 audited financial statements.

Note 2: Not yet distributed.

(4) Condensed Statements of Comprehensive Income-IFRS (Parent Company only)

Unit: NT$ thousands

Item \ Year	Financial information for the past five years				
	2015	2016	2017	2018	2019
Operating revenues	702,480	1,405,770	1,714,565	2,034,267	2,294,110
Gross profit	232,524	402,038	500,028	469,799	457,531
Operating income	30,608	156,177	255,831	192,133	162,058
Non-operating income and expenses	(16,581)	(5,079)	(19,532)	(3,774)	19,793
Income before tax	14,027	151,098	236,299	188,359	181,851
Income from continuing operations	9,962	131,678	204,087	157,432	156,010
Income from discontinued operations	-	-	-	-	
Net income	9,962	131,678	204,087	157,432	156,010
Other comprehensive income (loss)	938	(792)	(2,554)	860	(1,793)
Total comprehensive income	10,900	130,886	201,533	158,292	154,217
Net profit attributable to the parent Company	-	-	-	-	-
Net profit attributable to the non-controlling interest	-	-	-	-	-
Total comprehensive income attributable to the owner of the parent Company	-	-	-	-	-
Total comprehensive income attributable to the non-controlling interest	-	-	-	-	-
Earnings per share	0.15	1.98	3.02	2.17	2.01

Note 1: Note 1: 2015~2019 audited financial statements.

(5) The names of appointed CPA and their auditor opinions for the past five years

Year	CPA firm Name of CPA	Auditors' opinion
2015	Deloitte & Touche Cheng-Chih Lin, Tung-Hui Yeh	Unqualified opinion
2016	Deloitte & Touche Cheng-Chih Lin, Tung-Hui Yeh	Unqualified opinion
2017	Deloitte & Touche Cheng-Chih Lin, Ming-Yuan Chung	Unqualified opinion
2018	Deloitte & Touche Ming-Yuan Chung, Cheng-Chih Lin	Unqualified opinion
2019	Deloitte & Touche Ming-Yuan Chung, Cheng-Chih Lin	Unqualified opinion

2. Five-Year Financial Analysis

(1) Financial analysis-IFRS (Consolidated)

Analysis item / Year		Financial information for the past 5 years				
		2015	2016	2017	2018	2019
Capital structure (%)	Debt ratio	16.92	21.54	23.16	11.13	14.63
	Long-term capital to property, plant, and equipment ratio	2,353.59	2,688.16	2,517.45	4,444.46	395.44
Liquidity	Current ratio (%)	355.40	331.08	325.44	788.69	487.19
	Quick ratio (%)	160.68	198.82	111.78	506.19	203.97
	Times interest earned	461.16	1,738.48	472.47	488.11	604.01
Operating performance	Receivables turnover ratio (times)	12.41	28.99	118.30	56.82	65.13
	Average collection days	29	13	3	6	6
	Inventory turnover ratio (times)	2.82	4.24	3.00	2.48	2.37
	Payables turnover ratio (times)	7.16	8.15	10.27	11.76	8.36
	Inventory turnover days	129	86	122	148	154
	Property, plant and equipment turnover ratio(times)	21.99	46.14	48.87	46.45	7.92
	Total assets turnover (times)	0.89	1.47	1.46	1.1	0.94
Profitability	Return on assets (%)	1.27	13.79	17.44	8.50	6.41
	Return on equity (%)	1.45	17.13	22.44	10.01	7.34
	Income before tax to paid-in capital ratio (%)	2.23	22.58	35.23	24.41	23.32
	Net profit margin (%)	1.42	9.37	11.90	7.74	6.80
	Earnings per share (NT$) (Note 2)	0.15	1.98	3.02	2.17	2.01
Cash flow (%)	Cash flow ratio	-	134.09	-	52.71	38.01
	Cash flow adequacy ratio	10.88	66.35	34.89	39.18	30.06
	Cash reinvestment ratio	-	45.74	-	0.34	(1.42)
Leverage	Operating leverage	22.77	4.86	3.26	6.72	9.75
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Reasons for changes in financial ratios for the most recent two years:

1. Increase in debt ratio: Increase of accounts payable due to increase of outsourced products.
2. Decrease in long-term capital to property, plant, and equipment ratio: Increased capital expenditure in the current period (Prepayment for Business Facilities).
3. Decrease in current ratio: purchased equipment in this period.
4. Decrease in quick ratio: Due to Inventory increase.
5. Decrease in total asset turnover: Due to Inventory increase.
6. Decrease in profitability ratio compared to 2018: Due to product sales mix difference in 2019.
7. Increase in cash flow ratio: Due to inventory increase, resulting in the net cash inflow from operating activities.

(2) Financial analysis –IFRS (Parent company only)

Analysis item	Year	Financial information for the past 5 years				
		2015	2016	2017	2018	2019
Capital structure (%)	Debt ratio	16.87	21.47	23.14	11.02	14.15
	Long-term capital to property, plant, and equipment ratio	2,423.93	2,754.03	2,559.77	4,496.13	394.38
Liquidity	Current ratio (%)	338.88	318.42	318.02	782.56	480.42
	Quick ratio (%)	163.12	198.99	108.93	506.15	205.30
	Times interest earned	439.34	1,737.76	466.16	483.97	1,181.85
Operating performance	Receivable turnover ratio (times)	12.41	28.99	118.30	56.82	65.13
	Average collection days	29	13	3	6	6
	Inventory turnover ratio (times)	2.82	4.24	3.00	2.48	2.37
	Payables turnover ratio (times)	7.16	8.15	10.44	12.11	8.51
	Inventory turnover days	129	86	122	147	154
	Property, plant and equipment turnover ratio (times)	22.57	47.39	49.86	47.10	7.94
	Total assets turnover (times)	0.89	1.47	1.46	1.10	0.94
Profitability	Return on assets (%)	1.26	13.80	17.45	8.51	6.42
	Return on equity (%)	1.45	17.13	22.44	10.01	7.34
	Income before tax to paid-in capital ratio (%)	2.12	22.57	34.76	24.20	23.29
	Net profit margin (%)	1.42	9.37	11.90	7.74	6.80
	Earnings per share (NT$) (Note 2)	0.15	1.98	3.02	2.17	2.01
Cash flow (%)	Cash flow ratio	-	132.59	-	50.40	39.24
	Cash flow adequacy ratio	11.81	75.39	36.74	39.99	30.39
	Cash reinvestment ratio	-	46.74	-	(0.03)	(1.19)
Leverage	Operating leverage	8.73	3.90	2.97	5.93	8.94
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Reasons for changes in financial ratios for the most recent two years:

1. Increase in debt ratio: Increase of accounts payable due to increase of outsourced products.
2. Decrease in long-term capital to property, plant, and equipment ratio: Increased capital expenditure in the current period.
3. Decrease in current ratio: Purchased equipment in this period.
4. Decrease in quick ratio: Inventory increase.
5. Decrease in total asset turnover: Due to Inventory increase.
6. Decrease in profitability ratio compared to 2018: Due to product sales mix difference in 2019.
7. Increase in cash flow ratio: Due to inventory increase, resulting in the net cash inflow from operating activities..

Note 1: The years that has not been audited by CPAs shall be noted. The financial information over the past five years have been audited by CPAs.

Note 2: Companies that are listed or whose stock is listed on the TWSE or traded on the TPEx shall incorporate the financial information for the year ending in the first quarter of the annual report date into the analysis.

Note 3: At the end of the annual report, the following calculation formulas shall be listed:

1. Capital Structure
   (1) Debt ratio= total liabilities / total Assets
   (2) Long-term capital to property , plant, and equipment ratio = (total equity + non-current liabilities) / net property, plant and equipment
2. Liquidity
   (1) Current Ratio = Current Assets / Current Liabilities.
   (2) Quick Ratio = (Current Assets - Inventory - Prepaid Expenses) / Current Liabilities.
   (3) Times interest earned= earnings before Interest and Taxes/Interest Expenses

3. Operating Performance

(1) Receivables (including account receivables and note receivables from operating activities) turnover ratio＝net sales/average receivables (including account receivables and note receivables from operating activities) balance
(2) Average collection Days = 365 / Receivables Turnover Rate.
(3) Inventory Turnover ratio = Cost of Goods Sold / Average Inventory.
(4) Payables turnover ratio (including bills payable resulting from accounts payable and business operations) = Cost of Goods Sold / Average accounts payable in various periods (including bills payable resulting from accounts payable and business operations).
(5) Average Days for Sale = 365 / Inventory Turnover Rate.
(6) Property, Plant, and Equipment Turnover Rate = Net Sales / Average Net Property, Plant, and Equipment.
(7) Total Asset Turnover Rate = Net Sales / Average Total Assets.

4. Profitability

(1) Return on assets (ROA) = [Income (Loss) after tax + Interest expenses x (1 - Tax rates)] / Average total assets.
(2) Return on stockholders' equity = net income after tax / average stockholders' equity.
(3) Net margin = net income / net sales.
(4) Earnings per share = (net income (loss) attributable to shareholders of parent company – dividends on preferred shares) / weighted average number of issued shares. (Note 4)

5. Cash flow

(1) Cash flow ratio = net operating cash flow / current liabilities.
(2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.
(3) Cash re-investment ratio = (Net cash flow from operating activities – cash dividend) / (gross value of property, plant and equipment + long-term investment + other assets + working capital). (Note 5)

6. Leverage:

(1) Operating Leverage = (Net Operating Revenue - Variable COGS and Expenses) / Operating Income (Note 6).
(2) Financial Leverage = Operating Income / (Operating Income - Interest Expenses).

Note 4: Special attention shall be paid to the following matters when using the formula to calculate earning per share above:

1. Based on the weighted average number of shares of ordinary shares, not the number of issued shares at the end of the year.
2. For cash capital increase or transaction of treasury stock, the circulation period should be considered when calculating the weighted average number of shares.
3. In calculating the earnings per share for the previous year and the semi-annual period, for capital increase by retained earnings or capital surplus, it should be retrospectively adjusted according to the proportion of capital increase, and there is no need to consider the issue period of the capital increase.
4. If the preferred stocks are nonconvertible cumulative preferred stocks, its dividend of the year (whether is being distributed or not) shall add or subtract the net loss from the net income. If the preferred stock is non-cumulative, in the case of net profit after tax, the preferred stock dividend shall be deducted from the net profit after tax; no need to adjust if the company recorded net loss.

Note 5: Special attention should be paid to the following matters when measuring cash flow analysis:

1. Net cash flow from operating activities refers to the net cash inflow from operating activities in the statement of cash flows.
2. Capital expenditure is the annual cash outflow of capital investment.
3. The increase in inventory is included only when the balance at the end of the period is greater than opening balance. If the inventory decreases at the end of the year, it is counted as zero.
4. Cash dividends include cash dividends from ordinary shares and preferred stocks.
5. Gross property, plant and equipment refers to the total value of PP&E minus accumulated depreciation.

Note 6: The issuer shall classify the operating costs and operating expenses as fixed or variable in accordance with their nature. If it involves estimation or subjective judgment,

Note 7: If the company's shares have no par value or the nominal amount per share other than NT$10, any calculations that involve paid-in capital ratio shall be replaced with the equity ratio attributable to shareholders of parent company, as shown in the balance sheet.

Note 8: For companies that have prepared parent company only financial statements shall also prepare an analysis of the company's parent company only financial ratios.

3. 2019 Audit Committee's Review Report

Audit Committee’s Review Report

To: 2020 Annual General Shareholders’ Meeting

Silicon Optronics, Inc.

The Board of Directors has prepared the Company’s 2019 Business Report, Financial Statements (including the Consolidated Financial Statements), and proposal for distribution of earnings. The CPA firm of Deloitte & Touche has audited the Company’s Financial Statements (including the Consolidated Financial Statements) and issued the audit reports.

The above Business Report, Financial Statements (including the Consolidated Financial Statements), and proposal for distribution of earnings have been reviewed and determined to be correct and accurate by the Audit Committee members of Silicon Optronics, Inc. According to relevant requirements of the Securities and Exchange Act and the Company Law, we hereby submit this report.

Silicon Optronics, Inc.
Convener of the Audit Committee: Chang-Chou Li

March 17th, 2020

4. 2019 Independent Auditors' Report and Consolidated Financial Statements

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31st, 2019 are all the same as the companies required to be included in the consolidated financial statements of a parent and its subsidiaries under International Financial Reporting Standard 10 "Consolidated Financial Statements." Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of a parent and its subsidiaries. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

Silicon Optronics, Inc.

By:

Xinping He
Chairman

March 17th, 2020

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Silicon Optronics, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Silicon Optronics, Inc. and its subsidiaries (collectively referred to as the "Group"), 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 the 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 Group as of December 31, 2019 and 2018, 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 audits 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

<u>Sales Revenue</u>

The Group's sales revenue derived from key customers accounted for a high proportion of the overall sales revenue. The transaction amount with such customers is significant to the overall sales revenue.

Thus, we believe that there is a validity risk regarding the transaction of sales revenue of the Group. We deemed the sales validity derived from such customers as a key audit matter. For the description of the revenue recognition policy, please refer to Notes 4(m) to the consolidated financial statements.

Our key audit procedures performed in respect of the above area included the following:

1. We understood the effectiveness of the Group's internal controls for the order approval and shipment procedures.

2. We understood the background of the key customers and assessed whether the transaction amount and credit line matched the size of such customers and were under appropriate approval.

3. To confirm the sales validity, we sampled sales revenue and checked whether customer orders, shipping trackers, invoices and other documents are consistent with the same customers. And we also checked whether the transaction consideration were paid by the same customers.

<u>Inventory Valuation</u>

As of December 31, 2019, the Group's inventory balance was $856,520, accounting for 35% of the combined total assets. For its accounting policy, please refer to Notes 4(g) to the consolidated financial statements. As the amount of the inventory is significant and the assessment of net realization value involves significant management judgements, in particular with regard to estimates of inventory valuation and obsolescence loss. Therefore, inventory valuation is considered as a key audit matter. We has evaluated the appropriateness of the method used by the Group to calculate the inventory valuation and obsolescence loss at the end of the year and to implement the following procedures:

1. Based on our understanding of the industry and product nature of the Group, we sampled and verified the correctness of the inventory aging, as well as evaluated the appropriateness of the provision policy on the inventory.

2. To make sure the reasonableness of inventory valuation, we verified, on a sample basis, whether it is measured by the lower of cost and net realizable value based on the most recent raw material quotation or sales data, and we assessed the reasonableness of the change in allowance for inventory write-down.

3. We obtained and verified information used to evaluate the allowance for inventory valuation obsolescence loss, compared and analyzed the provision difference of inventory valuation and obsolescence loss and its appropriateness of inventory allowance estimation in 2019 and 2018.

Other Matter

We have also audited the parent company only financial statements of Silicon Optronics, Inc. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and

using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Group audit. We 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 a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partners on the audit resulting in this independent auditors' report are Ming-Yuan Chung and Cheng-Chih Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 17, 2020

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the 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.

SILICON OPTRONICS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019		2018	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 541,706	22	$ 486,893	20
Financial assets at amortized cost - current (Notes 4 and 7)	138,610	6	828,944	34
Accounts receivable - net (Notes 4 and 8)	11,260	1	59,182	2
Inventories (Notes 4, 5 and 9)	856,520	35	694,421	29
Prepayments and other current assets (Notes 4, 14 and 24)	103,757	4	72,963	3
Total current assets	1,651,853	68	2,142,403	88
NON-CURRENT ASSETS				
Financial assets at amortized cost - noncurrent (Notes 4, 7 and 26)	2,532	-	2,577	-
Property, plant and equipment (Notes 4 and 11)	530,417	22	48,811	2
Right-of-use assets (Note 3, 4 and 12)	24,558	1	-	-
Goodwill (Notes 4 and 5)	199,228	8	199,228	8
Intangible assets (Notes 4 and 13)	12,052	-	35,359	2
Deferred tax assets (Notes 4 and 21)	12,952	1	10,467	-
Other non-current assets (Notes 4, 14 and 16)	2,960	-	2,179	-
Total non-current assets	784,699	32	298,621	12
TOTAL	$ 2,436,552	100	$ 2,441,024	100

	2019		2018	
LIABILITIES AND EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Contract liabilities - current (Note 18)	$ 10,090	1	$ 6,012	-
Accounts payable (Note 4)	125,806	5	52,963	2
Accounts payable to related parties (Notes 4 and 25)	134,387	6	126,379	5
Current tax liabilities (Notes 4 and 20)	4,619	-	31,552	2
Lease liabilities - current (Note 3, 4 and 12)	7,625	-	-	-
Other current liabilities (Notes 4 and 15)	56,527	2	54,735	2
Total current liabilities	339,054	14	271,641	11
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 and 20)	337	-	41	-
Lease liabilities - non-current (Notes 3, 4 and 12)	17,041	1	-	-
Total non-current liabilities	17,378	1	41	-
Total liabilities	356,432	15	271,682	11
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Notes 4, 17 and 22)				
Ordinary shares	780,809	32	778,279	32
Capital surplus	1,131,702	46	1,124,721	46
Retained earnings				
Legal reserve	50,310	2	34,567	1
Special reserve	-	-	526	-
Unappropriated earnings	216,659	9	230,859	10
Other equity				
Exchange differences on translating the financial statements of foreign operations	(2,365)	-	390	-
Treasury shares	(96,995)	(4)	-	-
Total equity	2,080,120	85	2,169,342	89
TOTAL	$ 2,436,552	100	$ 2,441,024	100

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

SILICON OPTRONICS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 18 and 29)	$ 2,294,110	100	$ 2,034,267	100
OPERATING COSTS (Notes 9, 19 and 25)	1,836,579	80	1,564,468	77
GROSS PROFIT	457,531	20	469,799	23
OPERATING EXPENSES (Notes 19 and 25)				
Selling and marketing expenses	20,692	1	22,800	1
General and administrative expenses	40,693	2	57,820	3
Research and development expenses	240,095	10	209,125	10
Total operating expenses	301,480	13	289,745	14
OPERATING INCOME	156,051	7	180,054	9
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 19)	17,932	1	9,751	-
Other gains and losses (Notes 4 and 19)	8,429	-	558	-
Financial costs (Note 19)	(302)	-	(390)	-
Total non-operating income and expenses	26,059	1	9,919	-
PROFIT BEFORE INCOME TAX	182,110	8	189,973	9
INCOME TAX EXPENSE (Notes 4 and 20)	(26,100)	(1)	(32,541)	(1)
NET INCOME	156,010	7	157,432	8
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 16)	962	-	(56)	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translatingt the finacial statements of foreign operations (Notes 4 and 17)	(2,755)	-	916	-
Total other comprehensive income (loss)	(1,793)	-	860	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 154,217	7	$ 158,292	8
EARNINGS PER SHARE (Note 21)				
Basic	$ 2.01		$ 2.17	
Diluted	$ 2.00		$ 2.15	

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

SILICON OPTRONICS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Ordinary Shares			Retained Earnings			Other Equity		
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Difference on Translating the Financial Statements of Foreign Operations	Treasury Shares	Total Equity
BALANCE, JANUARY 1, 2018	67,981	$ 679,809	$ 52,187	$ 14,158	$ -	$ 230,514	$ (526)	$ -	$ 976,142
Appropriation of 2017 earnings									
Legal reserve	-	-	-	20,409	-	(20,409)	-	-	-
Special reserve	-	-	-	-	526	(526)	-	-	-
Cash dividends distributed by Silicon Optronics, Inc.	-	-	-	-	-	(136,096)	-	-	(136,096)
Net profit for the year ended December 31, 2018	-	-	-	-	-	157,432	-	-	157,432
Other comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	(56)	916	-	860
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	157,376	916	-	158,292
Issuance of ordinary shares for cash	9,285	92,850	1,057,885	-	-	-	-	-	1,150,735
Issuance of ordinary shares under employee share options	562	5,620	9,903	-	-	-	-	-	15,523
Share-based payment	-	-	4,746	-	-	-	-	-	4,746
BALANCE, DECEMBER 31, 2018	77,828	778,279	1,124,721	34,567	526	230,859	390	-	2,169,342
Appropriation of 2018 earnings									
Legal reserve	-	-	-	15,743	-	(15,743)	-	-	-
Special reserve	-	-	-	-	(526)	526	-	-	-
Cash dividends distributed by Silicon Optronics, Inc.	-	-	-	-	-	(155,955)	-	-	(155,955)
Net profit for the year ended December 31, 2019	-	-	-	-	-	156,010	-	-	156,010
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	-	962	(2,755)	-	(1,793)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	-	156,972	(2,755)	-	154,217
Issuance of ordinary shares under employee share options	253	2,530	6,981	-	-	-	-	-	9,511
Buy-back of ordinary shares	-	-	-	-	-	-	-	(96,995)	(96,995)
BALANCE, DECEMBER 31, 2019	78,081	$ 780,809	$ 1,131,702	$ 50,310	$ -	$ 216,659	$ (2,365)	$ (96,995)	$ 2,080,120

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

SILICON OPTRONICS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 182,110	$ 189,973
Adjustments for:		
Depreciation expenses	57,451	36,118
Amortization expenses	26,946	30,494
Finance costs	302	390
Interest income	(16,735)	(8,230)
Share-based payment	-	4,746
Impairment loss recognized on financial assets	-	7
Write downs of inventories	12,422	25,042
Net gain on modifying lease contract	(3)	-
Net (gain) loss on foreign currency exchange	(12,155)	7,868
Changes in operating assets and liabilities		
Accounts receivable	47,790	(46,717)
Inventories	(174,521)	(153,137)
Prepayments and other current assets	(30,794)	(10,625)
Contract liabilities	4,202	1,111
Accounts payable	74,489	7,779
Accounts payables to related parties	10,071	84,606
Other payables to related parties	-	(163)
Accrued expenses and other current liabilities	2,544	2,368
Net defined benefit Assets	(32)	(73)
Cash generated from operations	184,087	171,557
Income tax paid	(55,222)	(28,365)
Net cash generated from operating activities	128,865	143,192
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	(140,132)	(929,192)
Proceeds from financial assets at amortized cost	830,225	199,323
Payments of property, plant and equipment	(531,168)	(42,153)
Decrease (increase) in refundable deposits	188	(54)
Payments of intangible assets	(3,893)	(2,223)
Payments of right-of-use assets	(455)	-
Interest received	16,735	8,230
Net cash generated from (used in) investing activities	171,500	(766,069)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short term bank loans	-	(130,000)
Dividends paid	(155,955)	(136,096)
Repayment of the principal portion of lease liabilities	(7,954)	-
Issuance of ordinary shares for cash	-	1,150,735
Exercise of employee share options	9,511	15,523
Payments for buy - back of ordinary shares	(96,995)	-

(Continued)

SILICON OPTRONICS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
Interest paid	(302)	(390)
Net cash (used in) generated from financing activities	(251,695)	899,772
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	6,143	(7,166)
NET INCREASE IN CASH	54,813	269,729
CASH AT THE BEGINNING OF THE YEAR	486,893	217,164
CASH AT THE END OF THE YEAR	$ 541,706	$ 486,893

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

1. GENERAL INFORMATION

Silicon Optronics, Inc. (the "Company") was incorporated in the Republic of China ("ROC") on May 24, 2004 and commenced business on May 27, 2004. The Company's main business activities include the design, development and sales of complementary metal-oxide semiconductors.

The Company's shares have been listed on the Taiwan Stock Exchange (TWSE) since July 2018.

The consolidated financial statements of the Company and its subsidiary (collectively referred to as the "Group") are presented in the Company's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 17, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS 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 SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC).

   Except for the following, 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 did not have any material impact on the Group's accounting policies:

   1) IFRS 16 "Leases"

      IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

      Definition of a lease

      The Group 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 Group as lessee

      The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within financing activities. Prior

to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.
The Group applies IFRS16 retrospectively, but does not restate comparative information.
Leases previously classified as operating leases under IAS 17 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 an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group applies IAS 36 to assess impairment of all right-of-use assets.

The Group also applies the following practical expedients:

a) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.

d) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1%. The difference between the lease liabilities recognized and the future minimum non-cancellable lease payables on December 31, 2018 is stated as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	$ 37,619
Less: Recognition exemption for short-term leases	(409)
Less: Recognition exemption for leases of low-value assets	(324)
Undiscounted amounts on January 1, 2019	$ 36,886
Discounted amounts using the incremental borrowing rate on January 1, 2019	$ 36,113
Lease liabilities recognized on January 1, 2019	$ 36,113

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.
The impact on assets and liabilities 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	$ -	$ 36,113	$ 36,113
Total effect on assets	$ -	$ 36,113	$ 36,113
Lease liabilities - current	$ -	$ 8,531	$ 8,531
Lease liabilities - non-current	-	27,582	27,582
Total effect on liabilities	$ -	$ 36,113	$ 36,113

2) IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority has full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

3) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Group applied the above amendments prospectively.

b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by The IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 2)

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

1) Amendments to IFRS 3 "Definition of a Business"

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. 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.

2) Amendments to IAS 1 and IAS 8 "Definition of material"

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence".

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

c. New IFRSs in issue 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.

1) Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group's own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group's own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. 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.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

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

Refer to Notes 10 and 28 for detailed information on subsidiaries (including the percentages of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

f. Foreign currencies

In preparing the financial statements, transactions in currencies other than the entity’s functional currency (i.e. 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 that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting the consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

g. Inventories

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

h. Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of an item of property, plant and equipment is shorter than its useful life, it is depreciated over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

i. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

j. Intangible assets

1) Intangible assets acquired separately

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

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

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.

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of 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 a corporate asset, the asset is tested for impairment in the context of the cash-generating unit to which the asset belongs.

Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The 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 corresponding asset, 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, cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

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

Financial assets and financial liabilities are initially recognized 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 FVTPL) 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 FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement category

Financial assets are classified as financial assets at amortized cost.

i. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables, other receivables time deposit with original maturity more than 3 months and refundable deposits, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, 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.

b) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs 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 ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The impairment loss for all financial assets is recognized in profit or loss by reduction in their carrying amounts through a loss allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

Equity instruments issued by the Group are classified as equity in accordance with the substance of the contractual arrangements and the definitions of an equity instrument.

Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All the financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

m. Revenue recognition

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from the sale of image sensing products. Revenue and receivables from the sale of goods are recognized when the goods are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility to sales to future customers and bears the risk of obsolescence. The transaction price received in advance is recognized as a contract liability until the goods has been delivered to the customer.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from providing entrusted design services in accordance with customer contract specifications and are recognized when performance obligations are fulfilled.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

n. Leases

<u>2019</u>

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

<u>The Group as lessee</u>

Except for short-term leases and low-value asset leases which are recognized as expenses on a straight-line basis over the lease terms, the Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Subsequently, the right-of-use assets are 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 comprises 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 Group 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 an index or a rate used to determine those payments, the Group 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.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

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.

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

o. Employee benefits

Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

p. Share-based payment arrangements

Employee share options granted to employees

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 Group'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 vested immediately.

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

q. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% 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.

2) 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, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 assets 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes

Current and deferred taxes 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 taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group'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 revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	**2018**
Cash on hand	$ 272	$ 274
Bank deposits	96,544	85,942
Cash equivalents		
Time deposits in banks	444,890	400,677
	$ 541,706	$ 486,893

The market interest rate intervals of the time deposits held in banks at the end of the reporting period were as follows:

	December 31	
	2019	**2018**
Time deposits	0.65%-2.32%	0.24%-3.00%

7. FINANCIAL ASSETS AT AMORTIZED COST

	December 31	
	2019	**2018**
Current		
Time deposit with original maturities of more than 3 months (a)	$ 138,610	$ 828,944
Non-current		
Pledged time deposits (a and c)	$ 2,532	$ 2,577

a. The interest rates for time deposits with original maturities of more than 3 months ranged from 0.16% ~ 2.8% and 0.16% ~ 3.80% per annum as of December 31, 2019 and 2018, respectively.

b. Refer to Note 24 for information relating to their credit risk management and impairment of financial assets at amortized cost.

c. Refer to Note 26 for information relating to investments in financial assets at amortized cost pledged as security.

8. ACCOUNTS RECEIVABLE

	December 31 2019	December 31 2018
Accounts receivable - unrelated parties		
At amortized cost		
Gross carrying amount	$ 11,260	$ 59,182
Less: Allowance for impairment loss	-	-
	$ 11,260	$ 59,182

The average credit period of sales of goods was 30 days. No interest was charged on trade receivables.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, whichever occurs earlier. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2019

Item	Not Past Due	Past Due Up to 60 Days	Past Due 61 to 90 Days	Past Due Over 90 Days	Total
Gross carrying amount	$ 10,648	$ 612	$ -	$ -	$ 11,260
Loss allowance (Lifetime ECL)	-	-	-	-	-
Amortized cost	$ 10,648	$ 612	$ -	$ -	$ 11,260

December 31, 2018

	Not Past Due	1 to 30 Days	31 to 90 Days	91 to 180 Days	Over 181 Days	Total
Gross carrying amount	$ 58,355	$ -	$ -	$ -	$ 827	$ 59,182
Loss allowance (lifetime ECL)	-	-	-	-	-	-
Amortized cost	$ 58,355	$ -	$ -	$ -	$ 827	$ 59,182

The movements in the loss allowance of trade receivables were as follows:

	December 31	
	2019	2018
Balance at January 1	$ -	$ -
Add: Net remeasurement of loss allowance	1	530
Add: Amounts written off	(1)	(530)
Balance at December 31	$ -	$ -

9. INVENTORIES

The movements in the allowance for doubtful accounts were as follows:

	December 31	
	2019	2018
Finished goods	$ 222,479	$ 344,432
Work in process	633,513	349,357
Raw materials	528	632
Balance at December 31	$ 856,520	$ 694,421

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was $1,836,579 thousand and $1,564,468 thousand, respectively. The cost of goods sold included inventory write-downs of $12,422 thousand and $25,042 thousand, respectively.

10. SUBSIDIARIES

			% of Ownership December 31		
Investor	Investee	Main Business	2019	2018	Remark
Silicon Optronics, Inc.	NUEVA IMAGING, INC. ("NUEVA")	Research and development of CMOS Image Sensor high-order desig006E	100%	100%	-
	Silicon Optronics (Cayman) Co., Ltd. ("Silicon Cayman")	Investment business	100%	100%	-
Silicon Optronics (Cayman) Co., Ltd.	Silicon Optronics (Shanghai) Co., Ltd.	Research and development of CMOS Image Sensor high-order desig006E	100%	100%	-

Except for US NUEVA which fulfills the definition of a significant subsidiary per Article 2 of the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, the remaining entities are non-significant subsidiaries. The financial reports of the above subsidiaries had been audited by accountants.

11. PROPERTY, PLANT AND EQUIPMENT

	Testing Equipment	Molding Equipment	Computer	Office Equipment	Leasehold Improvement	Mask	Prepayment for Business Facilities	Total
Cost								
Balance at January 1, 2018	$ 4,291	$ 18,858	$ 1,942	$ 1,897	$ 204	$ 152,506	$ -	$ 179,698
Additions	31	(214)	313	-	-	46,030	-	46,160
Effect of exchange rate changes	(4)	-	(16)	49	-	-	-	29
Balance at December 31, 2018	$ 4,318	$ 18,644	$ 2,239	$ 1,946	$ 204	$ 198,536	$ -	$ 225,887
Accumulated depreciation								
Balance at January 1, 2018	$ 3,048	$ 8,994	$ 1,552	$ 1,687	$ 196	$ 124,263	$ -	$ 139,740
Depreciation expense	502	4,048	175	77	8	31,308	-	36,118
Effect of exchange rate changes	-	-	(12)	47	-	-	-	35
Balance at December 31, 2018	$ 3,550	$ 13,042	$ 1,715	$ 1,811	$ 204	$ 155,571	$ -	$ 175,893
Accumulated impairment								
Balance at January 1, 2018 and December 31, 2018	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ -	$ 1,183

Carrying amounts at December 31, 2018	$ 768	$ 4,419	$ 524	$ 135	$ -	$ 42,965	$ -	$ 48,811
Cost								
Balance at January 1, 2019	$ 4,318	$ 18,644	$ 2,239	$ 1,946	$ 204	$ 198,536	$ -	$ 225,887
Additions	119	5,508	212	-	-	51,744	472,972	530,555
Disposal	(2,962)	(10,566)	(1,276)	(232)	(204)	(153,470)	-	(168,710)
Effect of exchange rate changes	(11)	-	(38)	(42)	-	-	-	(91)
Balance at December 31, 2019	$ 1,464	$ 13,586	$ 1,137	$ 1,672	$ -	$ 96,810	$ 472,972	$ 587,641
Accumulated depreciation								
Balance at January 1, 2019	$ 3,550	$ 13,042	$ 1,715	$ 1,811	$ 204	$ 155,571	$ -	$ 175,893
Depreciation expense	399	3,697	222	68	-	44,541	-	48,927
Disposal	(2,962)	(10,566)	(1,276)	(232)	(204)	(153,470)	-	(168,710)
Effect of exchange rate changes	(7)	-	(22)	(40)	-	-	-	(69)
Balance at December 31, 2019	$ 980	$ 6,173	$ 639	$ 1,607	$ -	$ 46,642	$ -	$ 56,041
Accumulated impairment								
Balance at January 1, 2019 and December 31, 2019	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ -	$ 1,183
Carrying amounts at December 31, 2019	$ 484	$ 6,230	$ 498	$ 65	$ -	$ 50,168	$ 472,972	$ 530,417

The Group's property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Testing equipment	2-5 years
Molding equipment	3 years
Computer	3 years
Office equipment	5 years
Leasehold improvements	5-8 years
Masks	2 years

12. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Buildings	$ 24,558

	For the Year Ended December 31, 2019
Additions to right-of-use assets	$ 516
Depreciation charge for right-of-use assets	
Buildings	$ 8,524

b. Lease liabilities - 2019

	December 31, 2019

Carrying amounts

Current	$ 7,625
Non-current	$ 17,041

The discount rate for lease liabilities was as follows:

	December 31, 2019
Buildings	1%

c. Material lease activities and terms (the Group is lessee)

The Group leases buildings for the use of offices with lease terms of 3-4 years. The Group does not have bargain purchase options to acquire the buildings at the expiry of the lease periods. In addition, the Group is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

2019

	December 31, 2019
Expenses relating to short-term leases	$ 515
Expenses relating to low-value asset leases	$ 55
Total cash outflow for leases	$ (4,810)

The Group leases certain buildings, machinery and equipment which qualify as short-term leases, and certain other equipment which qualify as low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

13. INTANGIBLE ASSETS

	Technology License Fees	Patents	Software	Total
Cost				
Balance at January 1, 2018	$ 145,889	$ 60,465	$ 17,111	$ 223,465
Additions	-	-	2,223	2,223
Effect of exchange rate changes	-	475	574	1,049
Balance at December 31, 2018	$ 145,889	$ 60,940	$ 19,908	$ 226,737
Accumulated amortization				
Balance at January 1, 2018	$ 109,418	$ 39,867	$ 11,121	$ 160,406
Amortization expense	20,841	6,451	3,202	30,494
Effect of exchange rate changes	-	64	414	478
Balance at December 31, 2018	$ 130,259	$ 46,382	$ 14,737	$ 191,378
Carrying amounts at December 31, 2018	$ 15,630	$ 14,558	$ 5,171	$ 35,359
Cost				

Balance at January 1, 2019	$ 145,889	$ 60,940	$ 19,908	$ 226,737
Additions	-	-	3,893	3,893
Disposal	(145,889)	(45,659)	-	(191,548)
Effect of exchange rate changes	-	(366)	(495)	(861)
Balance at December 31, 2019	$ -	$ 14,915	$ 23,306	$ 38,221
Accumulated amortization				
Balance at January 1, 2019	$ 130,259	$ 46,382	$ 14,737	$ 191,378
Amortization expense	15,630	5,664	5,652	26,946
Disposal	(145,889)	(45,659)	-	(191,548)
Effect of exchange rate changes	-	(172)	(435)	(607)
Balance at December 31, 2019	$ -	$ 6,215	$ 19,954	$ 26,169
Carrying amounts at December 31, 2019	$ -	$ 8,700	$ 3,352	$ 12,052

(Concluded)

The above items of intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Technology license fees	7 years
Patents	3-7 years
Software	3 years

14. OTHER ASSETS

	December 31	
	2019	**2018**
Current		
Prepaid income tax	$ 63,867	$ 45,673
Tax receivables	22,586	14,764
Prepayments for purchases	6,076	1,618
Others	11,228	10,908
	$ 103,757	$ 72,963
Non-current		
Refundable deposits	$ 1,640	$ 1,853
Net defined benefit assets	1,320	326
	$ 2,960	$ 2,179

15. OTHER LIABILITIES

	December 31	
	2019	**2018**
Current		
Other payables		
Payables for employees' remuneration	$ 16,030	$ 21,206
Payables for bonuses	18,651	13,219
Payables for purchases of equipment	7,313	7,926
Payables for directors' remuneration	2,500	2,500
Others	11,909	9,767
	56,403	54,618

Other liabilities		
Receipts under custody	124	117
	$ 56,527	$ 54,735

16. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company 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.

Silicon Optronics (Shanghai) Co., Ltd. is a member of a state-managed retirement benefit plan operated by the government of the People’s Republic of China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the Bureau); the Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Company’s benefit plans are as follows:

	December 31	
	2019	**2018**
Present value of funded defined benefit obligation	$ 249	$ 1,149
Fair value of plan assets	(1,569)	(1,475)
Net defined benefit assets	$ (1,320)	$ (326)

Movements in net defined benefit assets were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Assets**
Balance at January 1, 2018	$ 1,043	$ (1,352)	$ (309)
Net interest expense (income)	11	(14)	(3)
Recognized in profit or loss	11	(14)	(3)
Remeasurement			
Actuarial (gain) loss			
Actuarial loss - changes in financial assumptions	12	-	12
Actuarial loss - experience adjustments	83	(39)	44
Recognized in other comprehensive loss (income)	95	(39)	56
Contributions from the employer	-	(70)	(70)
Balance at December 31, 2018	1,149	(1,475)	(326)

Net interest expense (income)	11	(14)	(3)
Recognized in profit or loss	11	(14)	(3)
Remeasurement			
Actuarial (gain) loss			
Actuarial loss - changes in financial assumptions	8	-	8
Actuarial loss - experience adjustments	(919)	(51)	(970)
Recognized in other comprehensive loss (income)	(911)	(51)	(962)
Contributions from the employer	-	(29)	(29)
Balance at December 31, 2019	$ 249	$ (1,569)	$ (1,320)

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2019	**2018**
Discount rate	0.8%	1.0%
Expected rate of salary increase	3.0%	3.0%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2019	**2018**
Discount rate		
0.25% increase	$ (10)	$ (30)
0.25% decrease	$ 11	$ 31
Expected rate of salary increase		
0.25% increase	$ 10	$ 27
0.25% decrease	$ (9)	$ (26)

The sensitivity analysis presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2019	**2018**
Expected contributions to the plans for the next year	$ 21	$ 70

Average duration of the defined benefit obligation	17 years	11 years

17. EQUITY

a. Ordinary shares

	December 31	
	2019	2018
Numbers of shares authorized (in thousands)	100,000	100,000
Shares authorized	$ 1,000,000	$ 1,000,000
Number of shares issued and fully paid (in thousands)	78,081	77,828
Shares issued	$ 780,809	$ 778,279

The share capital reserved for issue employee warrants in the nominal share capital is 6,000 thousand shares. For the year ended December 31, 2018, the shares increased due to the issuance of ordinary shares for cash and employees' exercise of their employee share options.

On May 25, 2018, the Company's board of directors resolved to issue 9,285 thousand ordinary shares, with a par value of NT$10, for a consideration of NT$101 per share. On June 8, 2018, the above transaction was approved by the FSC, and the subscription base date was determined as at July 12, 2018 by the board of directors. In particular, the stock issuance cost was accounted for as capital surplus - stock issuance premium deduction.

b. Capital surplus

	December 31	
	2019	2018
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Arising from issuance of ordinary shares	$ 1,114,415	$ 1,107,434
May be used to offset a deficit only		
Arising from employee share options exercised price	12,158	11,915
May not be used for any purpose		
Arising from employee share options	5,129	5,372
	$ 1,131,702	$ 1,124,721

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

Reconciliations of the balance for each class of capital surplus were as follows:

	Premium on Issue of Shares	Arising from Employee Share Options	Total
Balance at January 1, 2018	$ 39,646	$ 12,541	$ 52,187
Issuance of ordinary shares for cash	1,057,885	-	1,057,885
Issuance of ordinary shares under employee share options	9,903	-	9,903
Arising on share-based payments	-	4,746	4,746

Balance at December 31, 2018	1,107,434	17,287	1,124,721
Employee share options not exercised	6,981	-	6,981
Balance at December 31, 2019	$ 1,114,415	$ 17,287	$ 1,131,702

c. Retained earnings and dividend policy

The Company's Articles of Incorporation state that, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting accumulated losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, 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 the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to "Employees' compensation and remuneration of directors" in Note 19 (f).

Considering that the Company is in a period of operational growth, taking into account the interests of the company's shareholders and long-term capital and business planning, the shareholder dividend is not higher than the accumulated distributable surplus by 90%, in which the cash dividend allocation portion is not less than 10% of the assigned dividend. In the current year, the company has no surplus to allocate, or although there is a surplus but the surplus is much lower than the company's actual allocation in the previous year, or in accordance with the company's financial, business and business aspects and other factors, the public accumulation or a legal order or competent authority to assign.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2018 and 2017 which had been approved in the shareholders' meetings on June 18, 2019 and June 8, 2018, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31	
	2018	**2017**
Legal reserve	$ 15,743	$ 20,409
Special reserve	(526)	526
Cash dividends	155,955	136,096
Dividends per share (NT$)	2.0	2.0

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 17, 2020. The appropriations and dividends per share were as follows:

	Appropriation of Earnings
Legal reserve	$ 15,601
Special reserve	2,365
Cash dividends	154,212
Dividends per share (NT$)	$ 2.0

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 16, 2020.

d. Other equity items

	For the Year Ended December 31	
	2019	2018
Balance, beginning of year	$ 390	$ (526)
Exchange differences on translation of the financial statements of foreign operations	(2,755)	916
Balance, end of year	$ (2,365)	$ 390

e. Treasury shares

Purpose of Buy-back	Shares Transferred to Employees (In Thousands of Shares)
Number of shares at January 1, 2019	-
Increase during the year	1,000
Number of shares at December 31, 2019	1,000

The Company resolved in its board of directors' meeting held on August 12, 2019 to buy back 1,000 thousand of its ordinary shares listed on the Taiwan Stock Exchange within the period starting August 13, 2019 to October 12, 2019 for transfer to its employees, at a purchase price ranging from NT$53 to NT$115 per share.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

As of December 31, 2019, the Company has bought back 1,000 thousand shares for $96,955 thousand, and completed the buy-back plan in October 2019.

18. REVENUE

	For the Year Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from the sale of goods	$ 2,245,120	$ 2,026,840
Others	48,990	7,427
	$ 2,294,110	$ 2,034,267

a. Contract balances

	December 31		
	2019	2018	2017
Accounts receivable (Note 8)	$ 11,260	$ 59,182	$ 12,425
Contract liabilities - current			
Sale of goods	$ 10,090	$ 6,012	$ 4,901

Revenue recognized in the current reporting period from the contract liabilities at the beginning of the year is as follows:

	For the Year Ended December 31	
	2019	2018

From the contract liabilities at the beginning of the year		
Sale of goods	$ 3,508	$ 2,345

b. Disaggregation of revenue

	For the Year Ended December 31	
	2019	2018
Primary geographical markets		
Hong Kong	$ 2,072,482	$ 1,798,780
Taiwan (the Group's operating location)	85,466	46,506
United States of America	78,194	136,026
Korea	31,765	15,744
India	22,188	29,738
Philippines	4,015	7,473
	$ 2,294,110	$ 2,034,267
Major goods		
CMOS	$ 2,226,729	$ 1,938,304
Others	67,381	95,963
	$ 2,294,110	$ 2,034,267

19. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income	$ 16,735	$ 8,230
Others	1,197	1,521
	$ 17,932	$ 9,751

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Net foreign exchange gain (loss)	$ 8,440	$ 558
Other losses	(11)	-
	$ 8,429	$ 558

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Lease liabilities	$ 302	$ -
Interest on loans	-	390
	$ 302	$ 390

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018

	2019	2018
Property, plant and equipment	$ 48,927	$ 36,118
Right-of-use assets	8,524	-
Intangible assets	26,946	30,494
Total	$ 84,397	$ 66,612
An analysis of depreciation by function		
Operating costs	$ 13,699	$ 16,105
Operating expenses	43,752	20,013
	$ 57,451	$ 36,118
An analysis of amortization by function		
Research and development expenses	$ 26,946	$ 30,494

e. Employee benefits expense

	For the Year Ended December 31	
	2019	**2018**
Post-employment benefits (see Note 16)		
Defined contribution plans	$ 3,107	$ 2,948
Defined benefit plans	(7)	(3)
	3,100	2,945
Share-based payments		
Equity-settled	-	4,746
Other employee benefits	169,302	173,876
Total employee benefits expense	$ 172,042	$ 181,567
An analysis of employee benefits expense by function		
Operating expenses	$ 172,042	$ 181,567

f. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation at a rate of no less than 0.005% and no higher than 25%, and remuneration of directors and supervisors at rate of no higher than 3%. The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018, which were resolved in the board of directors' meetings on March 17, 2020 and March 8, 2019, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2019	**2018**
Employees' compensation	8%	10%
Remuneration of directors and supervisors	2%	1%

Amount

	For the Year Ended December 31	
	2019	**2018**
Employees' compensation	$ 16,030	$ 21,206
Remuneration of directors and supervisors	2,500	2,500

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.

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

20. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense (income) were as follows:

	For the Year Ended December 31	
	2019	**2018**
Current tax		
In respect of the current year	$ 28,186	$ 30,562
Income tax on unappropriated earnings	-	4,700
Adjustments for prior periods	103	626
	28,289	35,888
Deferred tax		
In respect of the current year	(2,189)	(2,098)
Adjustments for changes in tax rates and laws	-	(1,249)
	(2,189)	(3,347)
Income tax expense recognized in profit or loss	$ 26,100	$ 32,541

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2019	**2018**
Profit before tax from continuing operations	$ 182,110	$ 189,973
Income tax expense calculated at the statutory rate	$ 36,629	$ 39,286
Nondeductible expenses in determining taxable income	1,336	2,365
Income tax on unappropriated earnings	-	4,700
Unrecognized deductible temporary differences	2,189	3,332
Investment credits of the current year	(11,968)	(14,421)
Deferred tax		
Temporary differences	(2,189)	(2,098)
Adjustments for changes in tax rates and laws	-	(1,249)
Adjustments for prior years' tax	103	626
Income tax expense recognized in profit or loss	$ 26,100	$ 32,541

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings has been reduced from 10% to 5%.

b. Current tax assets and liabilities

	December 31	
	2019	**2018**
Current tax liabilities		
Income tax payable	$ 4,619	$ 31,552

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the Year Ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Closing Balance
Deferred tax assets			
Allowance for impairment loss	$ 10,467	$ 2,485	$ 12,952
Deferred tax liabilities			
Gain on foreign currency exchange	$ 41	$ 296	$ 337

For the Year Ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Closing Balance
Deferred tax assets			
Allowance for impairment loss	$ 5,689	$ 4,778	$ 10,467
Loss on foreign currency exchange	1,390	(1,390)	-
	$ 7,079	$ 3,338	$ 10,467
Deferred tax liabilities			
Gain on foreign currency exchange	$ -	$ 41	$ 41

d. Income tax assessments

The tax returns through 2017 have been assessed by the tax authorities.

21. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	$ 2.01	$ 2.17
Diluted earnings per share	$ 2.00	$ 2.15

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2019	2018
Earnings used in the computation of basic earnings per share	$ 156,010	$ 157,432
Effect of potentially dilutive ordinary shares:		
Employee share options	-	-
Bonuses issued to employees	-	-
Earnings used in the computation of diluted earnings per share	$ 156,010	$ 157,432

Number of shares

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares used in the computation of basic earnings per share	77,718	72,655
Effect of potentially dilutive ordinary shares:		
Employee share options	54	209
Bonuses issued to employees	204	299
Weighted average number of ordinary shares used in the computation of diluted earnings per share	77,976	73,163

Since the Group can offer to settle the bonuses to employees in cash or shares, the Company assumes the entire amount of the bonus would 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, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

22. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan

Qualified employees of the Company were granted 2,000 options on July 29, 2013 and 3,200 options on May 16, 2012. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The total number of shares that can be subscribed by each unit is 1,000 shares, and the total number of new ordinary shares required for the exercise of the employee share option is 2,000 shares and 3,200 shares, respectively. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date.

Information on employee share options is as follows:

	2013 Employee Share Option Plan		2012 Employee Share Option Plan	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
For the year ended December 31, 2018				
Balance at January 1	523	$ 41.17	1,132	$ 16.76
Options exercised	(235)	41.30	(327)	17.79
Balance at December 31	288	41.49	805	16.34
Options exercisable, end of period	288		805	
For the year ended December 31, 2019				
Balance at January 1	288	$ 41.49	805	$ 16.34
Options exercised	(188)	46.00	(65)	13.27
Option expired	-	-	(110)	12.55
Balance at December 31	100	33.00	630	17.31
Options exercisable, end of period	100		630	

Information on outstanding options as follows:

December 31 2019	December 31 2018

Share Option Plan	Range of Exercise Price (NT$)	Weighted-average Remaining Contractual Life (In Years)	Share Option Plan	Range of Exercise Price (NT$)	Weighted-average Remaining Contractual Life (In Years)
2013 Employee share option plan	$ 33.0-46.0	3.62	2013 Employee share option plan	$ 33.0-46.0	5.16
2012 Employee share option plan	10.5-19.5	2.81	2012 Employee share option plan	10.5-19.5	3.76

The resolution for the granting of the 2013 employee share options was passed in the board of directors' meeting on June 10, 2014, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

Grant-date share price (NT$)	$13.55
Exercise price (NT$)	$46.00
Expected volatility	33.73%-37.88%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.68%-1.12%
Fair value of stock options	0.05-0.55

The resolution for the granting of the 2013 employee share options was passed in the board of directors' meeting on August 13, 2013, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

Grant-date share price (NT$)	$11.18
Exercise price (NT$)	$33.0
Expected volatility	37.6%-41.65%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.82%-1.07%
Fair value of stock options	0.18-0.93

The resolution for the granting of the 2012 employee share options was passed in the board of directors' meeting on November 13, 2012, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

Grant-date share price (NT$)	$12.29
Exercise price (NT$)	$19.5
Expected volatility	44.34%-54.56%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.75%-0.85%
Fair value of stock options	1.67-3.94

The resolution for the granting of the 2012 employee share options was passed in the board of directors' meeting on May 25, 2012, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows

Grant-date share price (NT$)	$10.10
Exercise price (NT$)	$10.50
Expected volatility	46.76%-47.19%
Expected life (in years)	6-7 years
Expected dividend yield	-
Risk-free interest rate	1.09%-1.15%
Fair value of stock options	4.45-4.81

b. Shares from capital increase in cash retained for employees' subscription

On June 8, 2018, the Company's board of directors resolved to issue 1,392 thousand ordinary shares for employees' subscription. On July 2, 2018, all of the retained shares were subscribed by its employees.

Options granted in July 2, 2018 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

Grant-date share price (NT$)	$102.17
Exercise price (NT$)	$101.00
Expected volatility	35.78%
Expected life (in years)	9 days
Expected dividend yield	-
Risk-free interest rate	0.60%
Fair value of stock options	3.40

Compensation costs recognized amounted to $4,746 thousand for the year ended December 31, 2018.

23. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the number of new shares issued, and/or the amount of new debt issued or existing debt redeemed.

The Group is not subject to any externally imposed capital requirements.

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management believes the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair values.

b. Categories of financial instruments

	December 31	
	2019	2018
Financial assets		
Financial assets at amortized cost (Note 1)	$ 695,748	$ 1,379,449
Financial liabilities		
Amortized cost (Note 2)	267,506	187,268

Note 1: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, accounts receivable, refundable deposits and pledged time deposits.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise trade and other payables.

c. Financial risk management objectives and policies

The Group's major financial instruments included accounts receivable and accounts payable. The Group's corporate financial management function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the

Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).
There had been no change in the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group has foreign currency sales and purchases, which exposes the Group to foreign currency risk. Approximately 96% of the Group's sales is denominated in currencies other than the functional currency of the Group entity making the sale, whilst almost 97% of costs is denominated in the Group entity's functional currency. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities are set out in Note 27.

Sensitivity analysis

The Group is mainly exposed to the exchange rate fluctuations in the USD.

The sensitivity analysis regarding foreign currency risk is mainly calculated for USD denominated monetary items on the balance sheet date.

When the NTD appreciates/depreciates by 1% against the USD, the Group's net profit before tax for the years ended December 31, 2019 and 2018 would decrease/increase by $(488) thousand and $1,732 thousand, respectively.

b) Interest rate risk

The Group is exposed to interest rate risk arising from financial assets and financial liabilities at both fixed and floating interest rates.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting periods were as follows.

	December 31	
	2019	**2018**
Fair value interest rate risk		
Financial assets	$ 586,032	$ 1,232,198
Cash flow interest rate risk		
Financial assets	96,534	85,932

Sensitivity analysis

The sensitivity analysis regarding interest rate risk is calculated based on the changes in the cash flow of floating-rate liabilities on the balance sheet date. If interest rates had been 0.5% higher/lower, pre-tax profit for the years ended December 31, 2019 and 2018 would have increased/decreased by $483 thousand and $430 thousand, respectively.

2) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations and result in a financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation mainly arise from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Group transacts with a large number of unrelated customers and apply to credit policy, thus, no concentration of credit risk was observed.

3) Liquidity risk

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The objective of the Group in managing liquidity risk is to maintain the cash required for operations and the amount of cash and sufficient bank financing, etc., to ensure that the Group has sufficient financial flexibility.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay.

December 31, 2019

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
Non-derivative financial liabilities			
Accounts payable	$ 98,814	$ 26,992	$ -
Accounts payable - related parties	132,521	1,866	-
Payable on equipment	2,494	4,819	-
	$ 233,829	$ 33,677	$ -

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
Non-derivative financial liabilities			
Accounts payable	$ 40,386	$ 12,577	$ -
Accounts payable - related parties	126,379	-	-
Payable on equipment	7,926	-	-
	$ 174,691	$ 12,577	$ -

b) Financing facilities

	December 31	
	2019	2018
Unsecured bank overdraft facilities, reviewed annually and payable on demand:		
Amount used	$ -	$ -
Amount unused	200,000	80,000
	$ 200,000	$ 80,000

(Continued)

	December 31	
	2019	2018
Secured bank overdraft facilities:		
Amount used	$ -	$ -
Amount unused	500,000	150,000
	$ 500,000	$ 150,000

(Concluded)

25. 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. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related party name and category

Related Party Name	Related Party Category
Novax Technology, Inc.	Substantive related parties
Powerchip Technology Corp.	Substantive related parties
Powerchip Semiconductor Manufacturing Corp.	Substantive related parties

b. Purchases

	Year Ended December 31	
Related Party Category	2019	2018
Substantive related parties		
Powerchip Semiconductor Manufacturing Corp.	$ 1,032,202	$ 1,711
Powerchip Technology Corp.	239,460	1,121,438
	$ 1,271,662	$ 1,123,149

The purchase prices and payment terms were based on negotiations and thus not comparable with those in the market.

b. General and administrative expenses

	December 31	
Related Party Category	2019	2018
Substantive related parties	$ -	$ 38

c. Research and development expenses

	December 31	
Related Party Category	2019	2018
Substantive related parties		
Powerchip Technology Corp.	$ 379	$ 4,576
Powerchip Semiconductor Manufacturing Corp.	47	-
	$ 426	$ 4,576

d. Manufacturing expenses

Related Party Category	December 31 2019	December 31 2018
Substantive related parties	$ -	$ 82

e. Accounts payable from related parties

Related Party Category	December 31 2019	December 31 2018
Substantive related parties		
Powerchip Semiconductor Manufacturing Corp.	$ 134,387	$ -
Powerchip Technology Corp.	-	126,379
	$ 134,387	$ 126,379

f. Other transactions with related parties

The Group signed a joint development contract with Powerchip Semiconductor Manufacturing Co., Ltd. According to the contract, the Group will provide some machinery and equipment for the purpose of research and development.

g. Compensation of key management personnel

	For the Year Ended December 31 2019	For the Year Ended December 31 2018
Short-term employee benefits	$ 24,277	$ 26,170
Share-based payments	-	9
	$ 24,277	$ 26,179

The remuneration of directors and other major management departments is determined by the remuneration committee in accordance with individual performance and market trends.

26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets of the Company were provided as deposits for the tariff of imported raw materials:

	December 31 2019	December 31 2018
Pledged time deposits (classified as financial assets a amortized cost-noncurrent)	$ 2,532	$ 2,577

27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group’s significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than the functional currencies and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

December 31, 2019

	Foreign Currency	Exchange Rate	Carrying Amount

	Foreign Currency	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 7,074	29.98(USD:NTD)	$ 212,080
CNY	2,179	4.305(RMB:NTD)	9,382
			$ 221,462
Financial liabilities			
Monetary items			
USD	8,702	29.98(USD:NTD)	$ 260,886

December 31, 2018

	Foreign Currency	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 11,180	30.72(USD:NTD)	$ 343,393
CNY	2,243	4.472(CNY:NTD)	10,030
			$ 353,423
Financial liabilities			
Monetary items			
USD	5,539	30.72(USD:NTD)	$ 170,144

The Group is mainly exposed to the USD and CNY. The following information was aggregated by the functional currencies of the Group entities, and the exchange rates between the respective functional currencies and the presentation currency were disclosed. The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2019		2018	
Foreign Currency	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
NTD	1 (NTD:NTD)	$ 9,708	1 (NTD:NTD)	$ (194)
CNY	4.305 (CNY:NTD)	(1,268)	4.472 (CNY:NTD)	752
		$ 8,440		$ 558

28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others: None;

2) Endorsements/guarantees provided: None;

3) Marketable securities held (excluding investments in subsidiaries): None;

4) Marketable securities acquired or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None;

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: None;

6) Disposal 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 of at least NT$100 million or 20% of the paid-in capital: See Table 1;

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None;

9) Information about the derivative instruments transaction: None;

10) Intercompany relationships and significant intercompany transactions: See Table 2;

11) Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in Mainland China): Please see Table 3;

b. Information on investments in mainland China: See Table 4.

29. SEGMENT INFORMATION

a. Operation segment information

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided.

The segment revenues and operating results for the years ended December 31, 2019 and 2018 are shown in the consolidated income statements for the years ended December 31, 2019 and 2018. The segment assets as of December 31, 2019 and 2018 are shown in the consolidated balance sheets as of December 31, 2019 and 2018.

b. Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	For the Year Ended December 31	
	2019	**2018**
Complementary metal-oxide semiconductors	$ 2,226,729	$ 1,938,304
Others	67,381	95,963
	$ 2,294,110	$ 2,034,267

c. Geographical information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2019	**2018**	**2019**	**2018**
Hong Kong	$ 2,072,482	$ 1,798,780	$ -	$ -
Taiwan (the Group's operating location)	85,466	46,506	544,410	52,493
United States of America	78,194	136,026	16,371	32,392

Korea	31,765	15,744	-	-
India	22,188	29,738	-	-
Others	4,015	7,473	7,886	1,138
	$ 2,294,110	$ 2,034,267	$ 568,667	$ 86,023

Non-current assets exclude financial assets at amortized cost - noncurrent, deferred tax assets, post-employment benefit assets and goodwill.

d. Information about major customers

Single customers contributing 10% or more to the Group's revenue were as follows:

	For the Year Ended December 31	
	2019	**2018**
Customer A	$ 1,670,421	$ 1,445,118
Customer B	202,974	240,987

TABLE 1

SILICON OPTRONICS, INC. AND SUBSIDIARY

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts (Payable) Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Silicon Optronics, Inc.	Powerchip Semiconductor Manufacturing Corp.	Substantive related parties	Purchase	$ 1,032,202	53	Note 1	-	-	$ (134,387)	52	-
	Powerchip Technology Corp.	Substantive related parties	Purchase	239,460	12	Note 1	-	-	-	-	-

Note 1: Mainly paid on the 30th days after the month of the invoice date.

TABLE 2

SILICON OPTRONICS, INC. AND SUBSIDIARY

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEARS ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Counterparty	Nature of Relationship (Note 3)	Intercompany Transactions			
			Financial Statements Items	2018		Terms
				Amount	Percentage of Consolidated Total Gross Sales or Total Assets	
Silicon Optronics, Inc.	NUEVA IMAGING INC.	1	Technical service expense	$ 43,281	2%	-
	NUEVA IMAGING INC.	1	Other payable from related parties	2,513	-	-
	Silicon Optronics (Shanghai) Co., Ltd.	1	Technical service expense	59,908	3%	-
	Silicon Optronics (Shanghai) Co., Ltd.	1	Other payable from related parties	3,797	-	-
	Silicon Optronics (Shanghai) Co., Ltd.	1	Other prepayments	21,363	1%	-

Note 1: Represents the transactions from parent company to subsidiary

Note 2: The intercompany transactions, prices and terms are determined in accordance with mutual agreements

TABLE 3

SILICON OPTRONICS, INC. AND SUBSIDIARY

NAMES LOCATIONS AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Investor Company	Equity-method Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2019			Net Income of the Equity-method Investee	Investment Income	Note
				December 31, 2019	December 31, 2018	Shares (Thousands)	% of Ownership	Carrying Value			
Silicon Optronics, Inc.	NUEVA IMAGING INC.	USA	Product development & design of high-end CMOS Image Sensor	$ 358,500	$ 358,500	6,000	100	$ 242,747	$ 4,678	$ (10,953)	Subsidiary
	Silicon Optronics (Cayman) Co., Ltd.	Cayman	Investment holding company	5,237	5,237	170	100	17,479	4,284	4,284	Subsidiary

SILICON OPTRONICS, INC. AND SUBSIDIARY

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (US$ in Thousands)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019 (US$ in Thousands)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019 (US$ in Thousands)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019	Note
					Outward	Inward							
Silicon Optronics (Shanghai) Co., Ltd.	Design, test and research and development of IC and related electronic products with consultation on technology services and technology transfer	US$ 175	Note 1	$ 5,247 (US$ 175)	$ -	$ -	$ 5,247 (US$ 175)	$ 4,284	100	$ 4,284	$ 17,479	$ -	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019 (US$ in Thousands)	Investment Amount Authorized by Investment Commission, MOEA (US$ in Thousands)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (US$ in Thousands)
$ 5,247 (US$ 175)	Note 1	$ 1,248,072

Note 1: Through Silicon Optronics (Cayman) Co., Ltd.'s investment in Silicon Optronics (Shanghai) Co., Ltd., the investment was approved by the Investment Commission, MOEA with the approved amount of US$ 175 thousand.

Note 2: Amount was recognized on the basis of the audited financial statements.

Note 3: Based on the exchange rate as of December 31, 2019.

5. 2019 Independent Auditors' Report and Unconsolidated Financial Statements

Deloitte.

勤業眾信

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Silicon Optronics, Inc.

Opinion

We have audited the accompanying parent company only financial statements of Silicon Optronics, Inc. (the "Company"), which comprise the parent company only balance sheets as of December 31, 2019 and 2018, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2019 and 2018, and the parent company only financial performance and the parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits 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 Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's parent company only financial statements for the year ended December 31, 2019 are stated as follows:

Sales Revenue

The Company's sales revenue derived from key customers accounted for a high proportion of the overall sales revenue. The transaction amount with such customers is significant to the overall sales revenue. Thus, we believe that there is a validity risk regarding the transaction of sales revenue of the Company. We deemed the sales validity derived from such customers as a key audit matter. For the description of the revenue recognition policy, please refer to Notes 4 (k) to the parent company only financial statements.
Our key audit procedures performed in respect of the above area included the following:

1. We understood the effectiveness of the Company's internal controls for the order approval and shipment procedures.

2. We understood the background of the key customers and assessed whether the transaction amount and credit line matched the size of such customers and were under appropriate approval.

3. To confirm the sales validity, we sampled sales revenue and checked whether customer orders, shipping trackers, invoices and other documents are consistent with the same customers. And we also checked whether the transaction consideration were paid by the same customers.

Inventory Valuation

As of December 31, 2019, the Company's inventory balance was $856,520, accounting for 35% of the combined total assets. For its accounting policy, please refer to Notes 4 (e) to the parent company only financial statements. As the amount of the inventory is significant and the assessment of net realization value involves significant management judgements, in particular with regard to estimates of inventory valuation and obsolescence loss. Therefore, inventory valuation is considered as a key audit matter. We has evaluated the appropriateness of the method used by the Company to calculate the inventory valuation and obsolescence loss at the end of the year and to implement the following procedures:

1. Based on our understanding of the industry and product nature of the Company, we sampled and verified the correctness of the inventory aging, as well as evaluated the appropriateness of the provision policy on the inventory.

2. To make sure the reasonableness of inventory valuation, we verified, on a sample basis, whether it is measured by the lower of cost and net realizable value based on the most recent raw material quotation or sales data, and we assessed the reasonableness of the change in allowance for inventory write-down.

3. We obtained and verified information usd to evaluate the allowance for inventory valuation obsolescence loss, compared and analyzed the provision difference of inventory valuation and obsolescence loss and its appropriateness of inventory allowance estimation in 2019 and 2018.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ming-Yuan Chung and Cheng-Chih Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 17, 2020

<u>Notice to Readers</u>

The accompanying parent company only financial statements are intended only to present the parent company only financial position, parent company only financial performance and parent company only cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such parent company only financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying parent company only financial statements have been translated into English from the 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 parent company only financial statements shall prevail.

SILICON OPTRONICS, INC.

PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

ASSETS	2019 Amount	%	2018 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 534,484	22	$ 471,771	19
Financial assets at amortized cost - current (Notes 4 and 7)	138,610	6	828,944	34
Accounts receivable - net (Notes 4 and 8)	11,260	-	59,182	2
Inventories (Notes 4, 5 and 9)	856,520	35	694,421	29
Prepayments and other current assets (Notes 4, 14 and 25)	60,566	3	48,228	2
Total current assets	1,601,440	66	2,102,546	86
NON-CURRENT ASSETS				
Financial assets at amortized cost - noncurrent (Notes 4, 7 and 26)	2,532	-	2,577	-
Investment accounted for using equity method (Notes 4 and 10)	260,226	11	269,650	11
Right-of-use assets (Notes 3, 4 and 12)	13,146	1	-	-
Property, plant and equipment (Notes 4 and 11)	529,833	22	48,250	2
Intangible assets (Notes 4 and 13)	516	-	3,309	-
Deferred tax assets (Notes 4 and 20)	12,952	-	10,467	1
Other non-current assets (Notes 4 and 14)	2,235	-	1,260	-
Total non-current assets	821,440	34	335,513	14
TOTAL	$ 2,422,880	100	$ 2,438,059	100

LIABILITIES AND EQUITY	2019 Amount	%	2018 Amount	%
CURRENT LIABILITIES				
Contract liabilities - current (Note 18)	$ 10,090	1	$ 6,012	-
Accounts payable (Note 4)	121,909	5	48,971	2
Accounts payable to related parties (Notes 4 and 25)	134,387	6	126,379	5
Other payables to related parties (Notes 4 and 25)	6,310	-	6,048	-
Current tax liabilities (Notes 4 and 20)	4,610	-	30,495	2
Lease liabilities - current (Notes 3, 4 and 12)	4,127	-	-	-
Other current liabilities (Notes 4 and 15)	51,906	2	50,771	2
Total current liabilities	333,339	14	268,676	11
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 and 20)	337	-	41	-
Lease liabilities -non-current (Notes 3, 4 and 12)	9,084	-	-	-
Total non-current liabilities	9,421	-	41	-
Total liabilities	342,760	14	268,717	11
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Notes 4, 17 and 22)				
Ordinary shares	780,809	32	778,279	32
Capital surplus	1,131,702	47	1,124,721	46
Retained earnings				
Legal reserve	50,310	2	34,567	1
Special reserve	-	-	526	-
Unappropriated earnings	216,659	9	230,859	10
Other equity				
Exchange differences on translating the financial statements of foreign operations	(2,365)	-	390	-
Treasury shares	(96,995)	(4)	-	-
Total equity	2,080,120	86	2,169,342	89
TOTAL	$ 2,422,880	100	$ 2,438,059	100

The accompanying notes are an integral part of the parent company only financial statements.

SILICON OPTRONICS, INC.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4, 18)	$ 2,294,110	100	$ 2,034,267	100
OPERATING COSTS (Notes 9, 19 and 25)	1,836,579	80	1,564,468	77
GROSS PROFIT	457,531	20	469,799	23
OPERATING EXPENSES (Notes 19 and 25)				
Selling and marketing expenses	16,693	1	19,706	1
General and administrative expenses	40,693	2	41,538	2
Research and development expenses	238,087	10	216,422	11
Total operating expenses	295,473	13	277,666	14
OPERATING INCOME	162,058	7	192,133	9
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 19)	16,919	1	8,637	1
Other gains and losses (Notes 4 and 19)	9,697	-	(194)	-
Financial costs (Note 19)	(154)	-	(390)	-
Share of loss of subsidiaries (Notes 4 and 10)	(6,669)	-	(11,827)	(1)
Total non-operating income and expenses	19,793	1	(3,774)	-
PROFIT BEFORE INCOME TAX	181,851	8	188,359	9
INCOME TAX EXPENSE (Notes 4 and 20)	(25,841)	(1)	(30,927)	(1)
NET PROFIT FOR THE YEAR	156,010	7	157,432	8
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 16)	962	-	(56)	-
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations (Notes 4 and 17)	(2,755)	-	916	-
Total other comprehensive income (loss)	(1,793)	-	860	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 154,217	7	$ 158,292	8
EARNINGS PER SHARE (Note 21)				
Basic	$ 2.01		$ 2.17	
Diluted	$ 2.00		$ 2.15	

The accompanying notes are an integral part of the parent company only financial statements.

SILICON OPTRONICS, INC.

STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Shares			Retained Earnings			Other Equity		
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Treasury Shares	Total Equity
BALANCE, JANUARY 1, 2018	67,981	$ 679,809	$ 52,187	$ 14,158	$ -	$ 230,514	$ (526)	$ -	$ 976,142
Appropriation of 2017 earnings									
Legal reserve	-	-	-	20,409	-	(20,409)	-	-	-
Special reserve	-	-	-	-	526	(526)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(136,096)	-	-	(136,096)
Net profit for the year ended December 31, 2018	-	-	-	-	-	157,432	-	-	157,432
Other comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	(56)	916	-	860
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	157,376	916	-	158,292
Issuance of ordinary shares for cash	9,285	92,850	1,057,885	-	-	-	-	-	1,150,735
Issuance of ordinary shares under employee share options	562	5,620	9,903	-	-	-	-	-	15,523
Share-based payment	-	-	4,746	-	-	-	-	-	4,746
BALANCE, DECEMBER 31, 2018	77,828	778,279	1,124,721	34,567	526	230,859	390	-	2,169,342
Appropriation of 2018 earnings									
Legal reserve	-	-	-	15,743	-	(15,743)	-	-	-
Special reserve	-	-	-	-	(526)	526	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(155,955)	-	-	(155,955)
Net profit for the year ended December 31, 2019	-	-	-	-	-	156,010	-	-	156,010
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	-	962	(2,755)	-	(1,793)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	-	156,972	(2,755)	-	154,217
Issuance of ordinary shares under employee share options	253	2,530	6,981	-	-	-	-	-	9,511
Buy-back of ordinary shares	-	-	-	-	-	-	-	(96,995)	(96,995)
BALANCE, DECEMBER 31, 2019	78,081	$ 780,809	$ 1,131,702	$ 50,310	$ -	$ 216,659	$ (2,365)	$ (96,995)	$ 2,080,120

The accompanying notes are an integral part of the parent company only financial statements.

SILICON OPTRONICS, INC.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 181,851	$ 188,359
Adjustments for:		
Depreciation expenses	52,792	35,855
Amortization expenses	5,356	3,657
Finance costs	154	390
Interest income	(16,720)	(8,214)
Share-based payment	-	4,746
Share of loss of subsidiaries	6,669	11,827
Write-downs of inventories	12,422	25,042
Net (gain) loss on foreign currency exchange	(9,697)	7,506
Changes in operating assets and liabilities		
Accounts receivable	47,790	(46,717)
Inventories	(174,521)	(153,137)
Prepayments and other current assets	(12,338)	(238)
Contract liabilities	4,202	1,111
Accounts payable	74,584	7,656
Accounts payables to related parties	10,071	84,606
Other payables to related parties	262	(2,606)
Accrued expenses and other current liabilities	1,887	3,059
Net defined benefit liabilities	(32)	(73)
Cash generated from operations	184,732	162,829
Income tax paid	(53,915)	(27,414)
Net cash generated from operating activities	130,817	135,415
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	(140,132)	(929,192)
Proceeds from financial assets at amortized cost	830,225	199,323
Payments of property, plant and equipment	(530,837)	(41,953)
Decrease (increase) in refundable deposits	19	(30)
Payments of intangible assets	(2,563)	(927)
Interest received	16,720	8,214
Net cash generated from (used in) investing activities	173,432	(764,565)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	-	(130,000)
Repayment of the principal portion of lease liabilities	(4,086)	-
Dividends paid	(155,955)	(136,096)
Issuance of ordinary shares for cash	-	1,150,735
Exercise of employee share options	9,511	15,523
Payments for buy - back of ordinary shares	(96,995)	-
Interest paid	(154)	(390)

(Continued)

SILICON OPTRONICS, INC.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
Net cash (used in) generated from financing activities	(247,679)	899,772
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	6,143	(7,166)
NET INCREASE IN CASH	62,713	263,456
CASH AT THE BEGINNING OF THE YEAR	471,771	208,315
CASH AT THE END OF THE YEAR	$ 534,484	$ 471,771

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

1. GENERAL INFORMATION

Silicon Optronics, Inc. (the "Company") was incorporated in the Republic of China ("ROC") on May 24, 2004 and commenced business on May 27, 2004. The Company's main business activities include the design, development and sales of complementary metal-oxide semiconductors.

The Company's shares have been listed on the Taiwan Stock Exchange (TWSE) since July 2018.

The parent company only financial statements are presented in the Company's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the board of directors and authorized for issue on March 17, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS 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 SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC).

   Except for the following, 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 did not have any material impact on the Company's accounting policies:

   1) IFRS 16 "Leases"

      IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

      Definition of a 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 parent company only balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the parent company on statements of comprehensive income, the Company presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the parent company on statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within financing activities.

Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the parent company on statements of cash flows.

The Company applies IFRS16 retrospectively, but does not restate comparative information.

Leases previously classified as operating leases under IAS 17 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 an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Company applies IAS 36 to assess impairment of all right-of-use assets.

The Company also applies the following practical expedients:

a) The Company applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Company accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Company excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.

d) The Company uses hindsight, such as in determining lease terms, to measure lease liabilities.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1%. The difference between the lease liabilities recognized and the future minimum non-cancellable lease payables on December 31, 2018 is stated as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	$ 18,400
Less: Recognition exemption for short-term leases	(409)
Less: Recognition exemption for leases of low-value assets	(324)
Undiscounted amounts on January 1, 2019	$ 17,667
Discounted amounts using the incremental borrowing rate on January 1, 2019	$ 17,297
Lease liabilities recognized on January 1, 2019	$ 17,297

The Company as lessor

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

The impact on assets and liabilities 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	$ -	$ 17,312	$ 17,312
Total effect on assets	$ -	$ 17,312	$ 17,312
Lease liabilities - current	$ -	$ 4,086	$ 4,086
Lease liabilities - non-current	-	13,226	13,226
Total effect on liabilities	$ -	$ 17,312	$ 17,312

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority has full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Company expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

3) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Company applied the above amendments prospectively.

b. The IFRSs endorsed by the FSC for application starting from 2020

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

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 prospectively for annual reporting periods beginning on or after January 1, 2020.

1) Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. 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.

2) Amendments to IAS 1 and IAS 8 “Definition of material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence”.

Except for the above impact, as of the date the parent company only financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other 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. New IFRSs in issue 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.

1) Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

The amendments clarify that for a liability to be classified as non-current, the Company shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Company will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Company must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Company's own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Company's own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

Except for the above impact, as of the date the parent company only financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other 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 POLICIES

a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing the parent company only financial statements, the Company accounted for subsidiaries and associates using the equity method. In order for the amount of net income, other comprehensive income and equity in the parent company only financial statements to agree with the amount attributable to shareholders of the parent in consolidated financial statements, the difference in the accounting treatments between the parent company only basis and the consolidated basis are adjusted under the heading of investments accounted for using the equity method, share of profits of subsidiaries and share of other comprehensive income of subsidiaries in the parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (i.e. 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 that are measured at historical cost in a foreign currency are not retranslated.

At the time of the preparation of the parent company only financial statements, the assets and liabilities of the Company and its foreign operations (including subsidiaries operating in other countries or those using currencies which are different from the Company's functional currency) are converted into NT dollars at each balance sheet date. Income and expense items are translated at the average exchange rates for the period and the resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

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

f. Investments in subsidiaries

The Company uses the equity method to process investments in subsidiaries.

A subsidiary refers to an individual that is controlled by the Company.

Under the equity method, the original investment is recognized at cost, and the future carrying amount is increased or decreased depending on the profit and loss of subsidiaries and other comprehensive profit and loss shares and profit distribution enjoyed by the Company. In addition, changes to the Company's other interests in the subsidiary are recognized based on shareholding ratio.

When the Company’s change in the ownership interest in the subsidiary does not result in loss of control, it is treated as an equity transaction. The difference between the carrying amount of the investment and the fair value of the consideration paid or received is directly recognized as an equity.

When the Company’s share of loss in the subsidiary is equal to or exceeds its interest in the subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company’s net investment in the subsidiary), the Company continues recognizing its share of further loss according to the shareholding ratio.

Any excess of the cost of acquisition over the Company’s share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company’s share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee’s financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Company directly disposed of the related assets or liabilities.

Profit or loss resulting from downstream transactions is eliminated in full only in the parent company only financial statements. Profit and loss resulting from upstream transactions and transactions between subsidiaries is recognized only in the parent company only financial statements and only to the extent of interests in the subsidiaries that are not related to the Company.

g. Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

h. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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.

i. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of 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 a corporate asset, the asset is tested for impairment in the context of the cash-generating unit to which the asset belongs.

Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The 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 corresponding 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.

j. Financial instruments

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

Financial assets and financial liabilities are initially recognized 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 FVTPL) 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 FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement category

Financial assets are classified as financial assets at amortized cost.

i. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables, other receivables time deposit with original maturity more than 3 months and refundable deposits, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, 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.

b) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Company always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs 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 ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The impairment loss for all financial assets is recognized in profit or loss by reduction in their carrying amounts through a loss allowance account.

c) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

Equity instruments issued by the Company are classified as equity in accordance with the substance of the contractual arrangements and the definitions of an equity instrument.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All the financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

k. Revenue recognition

The Company identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from the sale of image sensing products. Revenue and receivables from the sale of goods are recognized when the goods are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility to sales to future customers and bears the risk of obsolescence. The transaction price received in advance is recognized as a contract liability until the goods has been delivered to the customer.

The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from providing entrusted design services in accordance with customer contract specifications and are recognized when performance obligations are fulfilled.

l. Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.
The Company as lessee

Except for short-term leases and low-value asset leases which are recognized as expenses on a straight-line basis over the lease terms, the Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Subsequently, the right-of-use assets are 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 parent company only balance sheet.

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 comprises fixed payments.

The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If implicit 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 an index or 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 parent company only 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.

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

m. Employee benefits

Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

n. Share-based payment arrangements

Employee share options granted to employees

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 vested 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 expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

o. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax on 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.

2) 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 to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 assets 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.

3) Current and deferred taxes

Current and deferred taxes 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 taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS 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 revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

b. Goodwill impairment included in investment subsidiaries

When it is determined whether the goodwill included in the investment subsidiary is impaired, the goodwill acquired by the merger is allocated to the cash-generating unit that the company expects to benefit from the consolidation of the synergy, and the use of the cash-generating unit of the goodwill is estimated value. In order to calculate the value in use, the management should estimate the future cash flows expected to arise from the cash-generating unit of the goodwill and determine the appropriate discount rate to use in calculating the present value. If the actual cash flow is less than expected, significant impairment losses may occur.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	$ 175	$ 115
Bank deposits	89,419	70,979
Cash equivalents		
Time deposits	444,890	400,677
	$ 534,484	$ 471,771

The market interest rate intervals of the time deposits held in banks at the end of the reporting period were as follows:

	December 31	
	2019	2018
Time deposits	0.65%-2.32%	0.24%-3.00%

7. FINANCIAL ASSETS AT AMORTIZED COST

	December 31	
	2019	2018
Current		
Time deposit with original maturities of more than 3 months (a)	$ 138,610	$ 828,944
Non-current		
Pledged time deposits (a and c)	$ 2,532	$ 2,577

a. The interest rates for time deposits with original maturities of more than 3 months ranged from 0.16%-2.8% and 0.16%-3.80% per annum as of December 31, 2019 and 2018, respectively.

b. Refer to Note 24 for information relating to their credit risk management and impairment of financial assets at amortized cost.

c. Refer to Note 26 for information relating to investments in financial assets at amortized cost pledged as security.

8. ACCOUNTS RECEIVABLE

	December 31	
	2019	2018
Accounts receivable-unrelated parties		
At amortized cost		
Gross carrying amount	$ 11,260	$ 59,182
Less: Allowance for impairment loss	-	-
	$ 11,260	$ 59,182

At amortized cost

The average credit period of sales of goods was 30 days. No interest was charged on trade receivables.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Company's credit risk was significantly reduced.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's different customer base.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, whichever occurs earlier. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Company's provision matrix.

December 31, 2019

	Not Past Due	1 to 30 Days	31 to 90 Days	91 to 180 Days	Over 181 Days	Total
Gross carrying amount	$ 10,648	$ 612	$ -	$ -	$ -	$ 11,260
Loss allowance (lifetime ECL)	-	-	-	-	-	-
Amortized cost	$ 10,648	$ 612	$ -	$ -	$ -	$ 11,260

December 31, 2018

Item	Not Past Due	Past Due Less than 60 Days	Past Due 61 to 90 Days	Past Due Over 90 Days	Total
Gross carrying amount	$ 58,355	$ -	$ -	$ 827	$ 59,182
Loss allowance (Lifetime ECL)	-	-	-	-	-
Amortized cost	$ 58,355	$ -	$ -	$ 827	$ 59,182

The movements in the loss allowance of trade receivables was as follows:

	December 31	
	2019	2018
Balance at January 1	$ -	$ -
Add: Net remeasurement of loss allowance	1	530
Less: Amounts written off (a)	(1)	(530)
Balance at December 31	$ -	$ -

9. INVENTORIES

	December 31	
	2019	2018
Finished goods	$ 222,479	$ 344,432
Work in process	633,513	349,357
Raw materials	528	632
	$ 856,520	$ 694,421

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was $1,836,579 thousand and $1,564,468 thousand, respectively. The cost of goods sold included inventory write-downs of $12,422 thousand and $25,042 thousand, respectively.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in subsidiaries

	December 31	
	2019	2018
NUEVA IMAGING, INC.	$ 242,747	$ 254,800
Silicon Optronics (Cayman) Co., Ltd.	17,479	14,850
	$ 260,226	$ 269,650

Name of associate

	Proportion of Ownership and Voting Rights	
	December 31	
	2019	2018
NUEVA IMAGING, INC.	100%	100%
Silicon Optronics (Cayman) Co., Ltd.	100%	100%

The share of profit and loss and other comprehensive income of the subsidiaries accounted for using the equity method for the years ended December 31, 2019 and 2018 was recognized based on the subsidiaries' financial statements audited by the accountants in the same periods.

11. PROPERTY, PLANT AND EQUIPMENT

	Testing Equipment	Molding Equipment	Computer	Office Equipment	Leasehold improvement	Mask	Prepayment For Business Facilities	Total
Cost								
Balance at January 1, 2018	$ 4,120	$ 18,858	$ 1,276	$ 261	$ 204	$ 152,506	$ -	$ 177,225
Additions	-	(214)	155	-	-	46,030	-	45,971
Balance at December 31, 2018	$ 4,120	$ 18,644	$ 1,431	$ 261	$ 204	$ 198,536	$ -	$ 223,196
Accumulated depreciation								
Balance at January 1, 2018	$ 2,937	$ 8,994	$ 1,276	$ 242	$ 196	$ 124,263	$ -	$ 137,908
Depreciation expense	472	4,048	13	6	8	31,308	-	35,855
Balance at December 31, 2018	$ 3,409	$ 13,042	$ 1,289	$ 248	$ 204	$ 155,571	$ -	$ 173,763
Accumulated impairment								
Balance at January 1, 2018 and December 31, 2018	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ -	$ 1,183
Carrying amounts at December 31, 2018	$ 711	$ 4,419	$ 142	$ 13	$ -	$ 42,965	$ -	$ 48,250

(Continued)

	Testing Equipment	Molding Equipment	Computer	Office Equipment	Leasehold improvement	Mask	Prepayment For Business Facilities	Total
Cost								
Balance at January 1, 2019	$ 4,120	$ 18,644	$ 1,431	$ 261	$ 204	$ 198,536	$ -	$ 223,196
Additions	-	5,508	-	-	-	51,744	472,972	530,224
Disposal	(2,962)	(10,566)	(1,276)	(232)	(204)	(153,470)	-	(168,710)
Balance at December 31, 2019	$ 1,158	$ 13,586	$ 155	$ 29	$ -	$ 96,810	$ 472,972	$ 584,710
Accumulated depreciation								
Balance at January 1, 2019	$ 3,409	$ 13,042	$ 1,289	$ 248	$ 204	$ 155,571	$ -	$ 173,763
Depreciation expense	345	3,697	52	6	-	44,541	-	48,641
Disposal	(2,962)	(10,566)	(1,276)	(232)	(204)	(153,470)	-	(168,710)
Balance at December 31, 2019	$ 792	$ 6,173	$ 65	$ 22	$ -	$ 46,642	$ -	$ 53,694
Accumulated impairment								
Balance at January 1, 2019 and December 31, 2019	$ -	$ 1,183	$ -	$ -	$ -	$ -	$ -	$ 1,183
Carrying amounts at December 31, 2019	$ 366	$ 6,230	$ 90	$ 7	$ -	$ 50,168	$ 472,972	$ 529,833

(Concluded)

The Company's property, plant and equipment were depreciated on a straight-line basis over their estimated useful lives as follows:

Testing equipment	2-5 years
Molding equipment	3 years
Computer	3 years
Office equipment	5 years
Leasehold improvement	5-8 years
Mask	2 years

12. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Buildings	$ 13,146

	For the Year Ended December 31, 2019
Additions to right-of-use assets	$ -
Depreciation charge for right-of-use assets	
Buildings	$ 4,151

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	
Current	$ 4,127
Non-current	$ 9,084

The discount rate for lease liabilities was as follows:

	December 31, 2019
Buildings	1%

c. Material lease activities and terms (the Company is lessee)

The Company leases buildings for the use of offices with lease term of 3-4 years. The Company does not have bargain purchase options to acquire the buildings at the expiry of the lease periods. In addition, the Company is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

2019

	December 31, 2019
Expenses relating to short-term leases	$ 515
Expenses relating to low-value asset leases	$ 55
Total cash outflow for leases	$ (4,810)

13. INTANGIBLE ASSETS

	Patents	Software	Total
Cost			
Balance at January 1, 2018	$ 45,659	$ -	$ 45,659
Additions	-	927	927
Balance at December 31, 2018	$ 45,659	$ 927	$ 46,586
Accumulated amortization			
Balance at January 1, 2018	$ 39,620	$ -	$ 39,620
Amortization expense	3,451	206	3,657
Balance at December 31, 2018	$ 43,071	$ 206	$ 43,277
Carrying amounts at December 31, 2018	$ 2,588	$ 721	$ 3,309

(Continued)

	Patents	Software	Total
Cost			
Balance at January 1, 2019	$ 45,659	$ 927	$ 46,586
Additions	-	2,563	2,563
Disposal	(45,659)	-	(45,659)
Balance at December 31, 2019	$ -	$ 3,490	$ 3,490
Accumulated amortization			
Balance at January 1, 2019	$ 43,071	$ 206	$ 43,277
Amortization expense	2,588	2,768	5,356
Disposal	(45,659)	-	(45,659)
Balance at December 31, 2019	$ -	$ 2,974	$ 2,974
Carrying amounts at December 31, 2019	$ -	$ 516	$ 516

(Concluded)

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

Patents	7 years
Software	3 years

14. OTHER ASSETS

	December 31	
	2019	2018
Current		
Tax receivables	$ 22,586	$ 14,764
Prepaid technical service fees	21,363	21,359
Prepayment for purchases	5,968	1,214
Others	10,649	10,891
	$ 60,566	$ 48,228
Non-current		
Refundable deposits	$ 915	$ 934
Net defined benefit assets	1,320	326
	$ 2,235	$ 1,260

15. OTHER LIABILITIES

	December 31	
	2019	2018
Current		
Other payables		
Payables for employees' remuneration	$ 16,030	$ 21,206
Payables for bonuses	13,787	8,848
Payables for purchases of equipment	7,313	7,926
Payables for directors' remuneration	2,500	2,500
Others	12,152	10,174

	51,782	50,654
Other liabilities		
Receipts under custody	124	117
	$ 51,906	$ 50,771

16. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company 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.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the Bureau); the Company has no right to influence the investment policy and strategy.

The amounts included in the parent company only balance sheets in respect of the Company's benefit plans are as follows:

	December 31	
	2019	**2018**
Present value of funded defined benefit obligation	$ 249	$ 1,149
Fair value of plan assets	(1,569)	(1,475)
Net defined benefit assets	$ (1,320)	$ (326)

Movements in net defined benefit assets were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Assets**
Balance at January 1, 2018	$ 1,043	$ (1,352)	$ (309)
Net interest expense (income)	11	(14)	(3)
Recognized in profit or loss	11	(14)	(3)
Remeasurement			
Actuarial (gain) loss			
Actuarial loss - changes in financial assumptions	12	-	12
Actuarial loss - experience adjustments	83	(39)	44
Recognized in other comprehensive loss (income)	95	(39)	56
Contributions from the employer	-	(70)	(70)
Balance at December 31, 2018	1,149	(1,475)	(326)
Net interest expense (income)	11	(14)	(3)
Recognized in profit or loss	11	(14)	(3)

Remeasurement			
Actuarial (gain) loss			
Actuarial loss - changes in financial assumptions	8	-	8
Actuarial loss - experience adjustments	(919)	(51)	(970)
Recognized in other comprehensive loss (income)	(911)	(51)	(962)
Contributions from the employer	-	(29)	(29)
Balance at December 31, 2019	$ 249	$ (1,569)	$ (1,320)

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2019	**2018**
Discount rate	0.8%	1.0%
Expected rate of salary increase	3.0%	3.0%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2019	**2018**
Discount rate		
0.25% increase	$ (10)	$ (30)
0.25% decrease	$ 11	$ 31
Expected rate of salary increase		
0.25% increase	$ 10	$ 27
0.25% decrease	$ (9)	$ (26)

The sensitivity analysis presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2019	**2018**
Expected contributions to the plans for the next year	$ 21	$ 70
Average duration of the defined benefit obligation	17 years	11 years

17. EQUITY

a. Ordinary shares

	December 31 2019	December 31 2018
Numbers of shares authorized (in thousands)	100,000	100,000
Shares authorized	$ 1,000,000	$ 1,000,000
Number of shares issued and fully paid (in thousands)	78,081	77,828
Shares issued	$ 780,809	$ 778,279

The share capital reserved for issue employee warrants in the nominal share capital is 6,000 thousand shares. For the year ended December 31, 2018, the shares increased due to the issuance of ordinary shares for cash and employees' exercise of their employee share options.

On May 25, 2018, the Company's board of directors resolved to issue 9,285 thousand ordinary shares, with a par value of NT$10, for a consideration of NT$101 per share. On June 8, 2018, the above transaction was approved by the FSC, and the subscription base date was determined as at July 12, 2018 by the board of directors. In particular, the stock issuance cost was accounted for as capital surplus - stock issuance premium deduction.

b. Capital surplus

	December 31 2019	December 31 2018
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Arising from issuance of ordinary shares	$ 1,114,415	$ 1,107,434
May be used to offset a deficit only		
Arising from exercise of employee share options	12,158	11,915
May not be used for any purpose		
Arising from employee share options	5,129	5,372
	$ 1,131,702	$ 1,124,721

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

Reconciliations of the balance for each class of capital surplus were as follows:

	Premium on Issue of Shares	Arising from Employee Share Options	Total
Balance at January 1, 2018	$ 39,646	$ 12,541	$ 52,187
Issuance of ordinary shares for cash	1,057,885	-	1,057,885
Issuance of ordinary shares under employee share options	9,903	-	9,903
Arising on share-based payments	-	4,746	4,746
Balance at December 31, 2018	1,107,434	17,287	1,124,721
Employee share options not exercised	6,981	-	6,981
Balance at December 31, 2019	$ 1,114,415	$ 17,287	$ 1,131,702

c. Retained earnings and dividend policy

The Company's Articles of Incorporation state that, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting accumulated losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, 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 the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to "Employees' compensation and remuneration of directors" in Note 19 (f).
Considering that the Company is in a period of operational growth, taking into account the interests of the Company's shareholders and long-term capital and business planning, the shareholder dividend is not higher than the accumulated distributable surplus by 90%, in which the cash dividend allocation portion is not less than 10% of the assigned dividend. In the current year, the Company has no surplus to allocate, or although there is a surplus but the surplus is much lower than the Company's actual allocation in the previous year, or in accordance with the Company's financial, business and business aspects and other factors, the public accumulation or a legal order or competent authority to assign.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2018 and 2017 which had been approved in the shareholders' meetings on June 18, 2019 and June 8, 2018, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31	
	2018	**2017**
Legal reserve	$ 15,743	$ 20,409
Special reserve	(526)	526
Cash dividends	155,955	136,096
Dividends per share	$ 2.0	$ 2.0

The appropriations of earnings for 2019 had been proposed by the Company's board of directors on March 17, 2020. The appropriations and dividends per share were as follows:

	Appropriation of Earnings
Legal reserve	$ 15,601
Special reserve	2,365
Cash dividends	154,212
Dividends per share	$ 2.0

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 16, 2020.

d. Other equity items

	For the Year Ended December 31	
	2019	**2018**
Balance, beginning of year	$ 390	$ (526)

Exchange differences on translation of the financial statements of foreign operations	(2,755)	916
Balance, end of year	$ (2,365)	$ 390

e. Treasury shares

Purpose of Buy-back	**Shares Transferred to Employees (In Thousands of Shares)**
Number of shares at January 1, 2019	-
Increase during the year	1,000
Number of shares at December 31, 2019	1,000

The Company resolved in its board of directors' meeting held on August 12, 2019 to buy back 1,000 thousand of its ordinary shares listed on the Taiwan Stock Exchange within the period starting August 13, 2019 to October 12, 2019 for transfer to its employees, at a purchase price ranging from NT$53 to NT$115 per share.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

As of December 31, 2019, the Company has bought back 1,000 thousand shares for $96,955 thousand and completed the buy-back plan in October 2019.

18. REVENUE

	For the Year Ended December 31	
	2019	**2018**
Revenue from contracts with customers		
Revenue from the sale of goods	$ 2,245,120	$ 2,026,840
Others	48,990	7,427
	$ 2,294,110	$ 2,034,267

a. Contract balances

	December 31, 2019	**December 31, 2018**	**January 1, 2017**
Accounts receivable (Note 8)	$ 11,260	$ 59,182	$ 12,425
Contract liabilities - current			
Sale of goods	$ 10,090	$ 6,012	$ 4,901

Revenue recognized in the current reporting period from the contract liabilities at the beginning of the year is as follows:

	For the Year Ended December 31, 2018	
	2019	**2018**
From the contract liabilities at the beginning of the year		
Sale of goods	$ 3,508	$ 2,345

b. Disaggregation of revenue

	For the Year Ended December 31	
	2019	2018
Primary geographical markets		
Hong Kong	$ 2,072,482	$ 1,798,780
Taiwan (the Company's operating location)	85,466	46,506
United States of America	78,194	136,026
Korea	31,765	15,744
India	22,188	29,738
Philippines	4,015	7,473
	$ 2,294,110	$ 2,034,267
Major goods		
CMOS	$ 2,226,729	$ 1,938,304
Other	67,381	95,963
	$ 2,294,110	$ 2,034,267

19. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income	$ 16,720	$ 8,214
Others	199	423
	$ 16,919	$ 8,637

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Net foreign exchange loss	$ 9,708	$ (194)
Other expenses	(11)	-
	$ 9,697	$ (194)

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on lease liabilities	$ -	$ 390
Interest on loans	154	-
	$ 154	$ 390

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property, plant and equipment	$ 48,641	$ 35,855
Right-of-use assets	4,151	-
Intangible assets	5,356	3,657
Total	$ 58,148	$ 39,512
An analysis of depreciation by function		
Operating costs	$ 13,699	$ 16,105
Operating expenses	39,093	19,750
	$ 52,792	$ 35,855
An analysis of amortization by function		
Research and development expenses	$ 5,356	$ 3,657

e. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Post-employment benefits		
Defined contribution plans	$ 3,107	$ 2,948
Defined benefit plans	(7)	(3)
	3,100	2,945
Share-based payments		
Equity-settled	-	4,746
Other employee benefits	98,652	100,303
Total employee benefits expense	$ 101,752	$ 107,994
An analysis of employee benefits expense by function		
Operating expenses	$ 101,752	$ 107,994

f. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation at a rate of no less than 0.005% and no higher than 25% and remuneration of directors and supervisors at a rate of no higher than 3%. The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018 were resolved in the board of directors' meetings on March 17, 2020 and March 8, 2019, respectively.

Accrual rate

	For the Year Ended December 31	
	2019	2018
Employees' compensation	8%	10%
Remuneration of directors and supervisors	2%	1%

Amount

	For the Year Ended December 31	
	2019	2018
Employees' compensation	$ 16,030	$ 21,206
Remuneration of directors and supervisors	2,500	2,500

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the parent company only financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

20. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax expense (income) were as follows:

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	$ 27,927	$ 28,948
Income tax on unappropriated earnings	-	4,700
Adjustments for prior periods	103	626
	28,030	34,274
Deferred tax		
In respect of the current year	(2,189)	(2,098)
Adjustments for changes in tax rates and laws	-	(1,249)
	(2,189)	(3,347)
Income tax expense recognized in profit or loss	$ 25,841	$ 30,927

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2019	2018
Profit before tax from continuing operations	$ 181,151	$ 188,359
Income tax expense calculated at the statutory rate	$ 36,370	$ 37,672
Nondeductible expenses in determining taxable income	1,336	2,365
Income tax on unappropriated earnings	-	4,700
Unrecognized deductible temporary differences	2,189	3,332
Investment credits of the current year	(11,968)	(14,421)
Deferred tax		
Temporary differences	(2,189)	(2,098)
Adjustments for changes in tax rates and laws	-	(1,249)
Adjustments for prior years' tax	103	626
Income tax expense recognized in profit or loss	$ 25,841	$ 30,927

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings has been reduced from 10% to 5%.

b. Current tax liabilities

	December 31	
	2019	2018
Current tax liabilities		
Income tax payable	$ 4,610	$ 30,495

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

Year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Closing Balance
Deferred tax assets			
Allowance for impairment loss	$ 10,467	$ 2,485	$ 12,952
Deferred tax liabilities			
Gain on foreign currency exchange	$ 41	$ 296	$ 337

For the Year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Closing Balance
Deferred tax assets			
Allowance for impairment loss	$ 5,689	$ 4,778	$ 10,467
Loss on foreign currency exchange	1,390	(1,390)	-
	$ 7,079	$ 3,388	$ 10,467
Deferred tax liabilities			
Gain on foreign currency exchange	$ -	$ 41	$ 41

d. Income tax assessments

The tax returns through 2017 have been assessed by the tax authorities.

21. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	$ 2.01	$ 2.17
Diluted earnings per share	$ 2.00	$ 2.15

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2019	2018
Earnings used in the computation of basic earnings per share	$ 156,010	$ 157,432
Effect of potentially dilutive ordinary shares:		
Employee share options	-	-
Bonuses issued to employees	-	-
Earnings used in the computation of diluted earnings per share	$ 156,010	$ 157,432

Number of shares

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares used in the computation of basic earnings per share	77,718	72,655
Effect of potentially dilutive ordinary shares:		
Employee share options	54	209
Bonuses issued to employees	204	299
Weighted average number of ordinary shares used in the computation of diluted earnings per share	77,976	73,163

Since the Company can offer to settle the bonuses to employees in cash or shares, the Company assumes the entire amount of the bonus would 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, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

22. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan

Qualified employees of the Company were granted 2,000 options on July 29, 2013 and 3,200 options on May 16, 2012. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The total number of shares that can be subscribed by each unit is 1,000 shares, and the total number of new ordinary shares required for the exercise of the employee share option is 2,000 shares and 3,200 shares, respectively. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date.

Information on employee share options is as follows:

	2013 Employee Share Option Plan		2012 Employee Share Option Plan	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
For the year ended December 31, 2018				
Balance at January 1	523	$ 41.17	1,132	$ 16.76
Options exercised	(235)	41.30	(327)	17.79
Balance at December 31	288	41.49	805	16.34
Options exercisable, end of period	288		805	
For the year ended December 31, 2019				
Balance at January 1	288	$ 41.49	805	$ 16.34
Options expired	-	-	(110)	12.55
Options exercised	(188)	46.00	(65)	13.27
Balance at December 31	100	33.00	630	17.31
Options exercisable, end of period	100		630	

Information on outstanding options as follows:

December 31, 2019			December 31, 2018		
Share Option Plan	Range of Exercise Price(NT$)	Weighted-average Remaining Contractual Life (In Years)	Share Option Plan	Range of Exercise Price(NT$)	Weighted-average Remaining Contractual Life (In Years)
2013 Employee share option plan	$ 33.0-46.0	3.62	2013 Employee share option plan	$ 33.0-46.0	5.16
2012 Employee share option plan	10.5-19.5	2.81	2012 Employee share option plan	10.5-19.5	3.76

The resolution for the granting of the 2013 employee share options was passed in the board of directors' meeting on June 10, 2014, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

Grant-date share price (NT$)	$13.55
Exercise price (NT$)	$46.00
Expected volatility	33.73%-37.88%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.68%-1.12%
Fair value of stock options	0.05-0.55

The resolution for the granting of the 2013 employee share options was passed in the board of directors' meeting on August 13, 2013, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

Grant-date share price (NT$)	$11.18
Exercise price (NT$)	$33.00
Expected volatility	37.60%-41.65%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.82%1.07%
Fair value of stock options	0.18-0.93

The resolution for the granting of the 2012 employee share options was passed in the board of directors' meeting on November 13, 2012, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

Grant-date share price (NT$)	$12.29
Exercise price (NT$)	$19.50
Expected volatility	44.34%-54.56%
Expected life (in years)	2.5-4.5 years
Expected dividend yield	-
Risk-free interest rate	0.75%-0.85%
Fair value of stock options	1.67-3.94

The resolution for the granting of the 2012 employee share options was passed in the board of directors' meeting on May 25, 2012, and their fair values were assessed using the Black-Scholes pricing model; the inputs to the model are as follows:

Grant-date share price (NT$)	$10.10
Exercise price (NT$)	$10.50
Expected volatility	46.76%-47.19%
Expected life (in years)	6-7 years
Expected dividend yield	-
Risk-free interest rate	1.09%-1.15%
Fair value of stock options	4.45-4.81

b. Shares from capital increase in cash retained for employees' subscription

On June 8, 2018, the Company's board of directors resolved to issue 1,392 thousand ordinary shares for employees' subscription. On July 2, 2018, all of the retained shares were subscribed by its employees.

Options granted in July 2, 2018 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

Grant-date share price (NT$)	$102.17
Exercise price (NT$)	$101.00
Expected volatility	35.78%
Expected life (in years)	9 days
Expected dividend yield	-
Risk-free interest rate	0.60%
Fair value of stock options	3.40

Compensation costs recognized amounted to $4,746 thousand for the year ended December 31, 2018.

23. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

Key management personnel of the Company review the capital structure on a annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the number of new shares issued, and/or the amount of new debt issued or existing debt redeemed.

The Company is not subject to any externally imposed capital requirements.

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management believes the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair values.

b. Categories of financial instruments

	December 31	
	2019	**2018**
<u>Financial assets</u>		
Financial assets at amortized cost (Note 1)	$ 687,801	$ 1,363,408
<u>Financial liabilities</u>		
Amortized cost (Note 2)	269,919	189,324

Note 1: The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, accounts receivable, refundable deposit and pledged time deposits.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise trade and other payables.

c. Financial risk management objectives and policies

The Company's major financial instruments included accounts receivable and accounts payables. The Company's corporate financial management function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price 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 (a) below) and interest rates (see (b) below).

There had been no change in the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company have foreign currency sales and purchases, which exposes the Company to foreign currency risk. Approximately 96% of the Company's sales is denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 97% of costs is denominated in the group entity's functional currency. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities are set out in Note 27.

Sensitivity analysis

The Company is mainly exposed to the exchange rate fluctuations in the USD.

The sensitivity analysis regarding foreign currency risk is mainly calculated for USD denominated monetary items on the balance sheet date.

When the NTD appreciates/depreciates by 1% against the USD, the Group's net profit before tax for the years ended December 31, 2019 and 2018 would decrease/increase by $(500) thousand and $1,672 thousand, respectively.

b) Interest rate risk

The Company is exposed to interest rate risk arising from financial assets and financial liabilities at both fixed and floating interest rates.

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting periods were as follows:

	December 31	
	2019	**2018**
Fair value interest rate risk		
Financial assets	$ 586,032	$ 1,232,198
Cash flow interest rate risk		
Financial assets	89,409	70,969

Sensitivity analysis

The sensitivity analysis regarding interest rate risk is calculated based on the changes in the cash flow of floating-rate liabilities on the balance sheet date.

If interest rates had been 0.5% higher/lower, pre-tax profit for the years ended December 31, 2019 and

2018 would have increased/decreased by $447 thousand and $355 thousand, respectively.

2) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations and result in a financial loss to the Company. As 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 mainly arise from the carrying amount of the respective recognized financial assets as stated in the parent company only balance sheets.

The Company transacts with a large number of unrelated customers and apply to credit policy, thus, no concentration of credit risk was observed.

3) Liquidity risk

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The objective of the Company in managing liquidity risk is to maintain the cash required for operation and the amount of cash and sufficient bank financing, etc., to ensure that the Company has sufficient financial flexibility.

The following table details the Company's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay.

December 31, 2019

	On Demand or Less than 1 Month	**1-3 Months**	**3 Months to 1 Year**
Non-derivative financial liabilities			
Accounts payable	$ 94,917	$ 26,992	$ -
Accounts payable - related parties	132,521	1,866	-
Other payables - related parties	6,310	-	-
Payables on equipment	2,494	4,819	-
	$ 236,242	$ 33,677	$ -

December 31, 2018

	On Demand or Less than 1 Month	**1-3 Months**	**3 Months to 1 Year**
Non-derivative financial liabilities			
Accounts payable	$ 36,394	$ 12,577	$ -
Accounts payable - related parties	126,379	-	-
Other payables - related parties	6,048	-	-
Payables on equipment	2,430	5,496	-
	$ 171,251	$ 18,073	$ -

b) Financing facilities

	December 31	
	2019	**2018**
Unsecured bank overdraft facilities, reviewed annually and payable on demand:		
Amount used	$ -	$ -

Amount unused	200,000	80,000
	$ 200,000	$ 80,000
Secured bank overdraft facilities:		
Amount used	$ -	$ -
Amount unused	500,000	150,000
	$ 500,000	$ 150,000

25. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related party name and category

Related Party Name	Related Party Category
Silicon Optronics (Shanghai) Co., Ltd.	Subsidiaries
NUEVA IMAGING, INC.	Subsidiaries
Novax Technology, Inc.	Substantive related parties
Powerchip Technology Corp.	Substantive related parties
Powerchip Semiconductor Manufacturing Corp.	Substantive related parties

b. Purchases

Related Party Category	Year Ended December 31	
	2019	2018
Substantive related parties		
Powerchip Semiconductor Manufacturing Corp.	$ 1,032,202	$ 1,711
Powerchip Technology Corp.	239,460	1,121,438
	$ 1,271,662	$ 1,123,149

The purchase prices and payment terms were based on negotiations and thus not comparable with those in the market.

c. General and administrative expenses

Related Party Category	December 31	
	2019	2018
Substantive related parties	$ -	$ 38

d. Research and development expenses

Related Party Category	December 31	
	2019	2018
Substantive related parties		
Powerchip Technology Corp.	$ 379	$ 4,576
Powerchip Semiconductor Manufacturing Corp.	47	-
	$ 426	$ 4,576

e. Manufacturing expenses

Related Party Category	December 31 2019	December 31 2018
Substantive related parties	$ -	$ 82

f. Technical service expense

Related Party Category	December 31 2019	December 31 2018
Subsidiaries		
Silicon Optronics (Shanghai) Co., Ltd.	$ 59,908	$ 58,555
NUEVA IMAGING, INC.	43,281	45,113
	$ 103,189	$ 103,668

The technical service contract between the company and the related person is based on the price and conditions agreed upon by both parties and is not comparable to other appropriate trading objects.

g. Prepayment and other current assets

Related Party Category	December 31 2019	December 31 2018
Subsidiaries		
Silicon Optronics (Shanghai) Co., Ltd.	$ 21,363	$ 21,359

h. Account payable from related parties

Related Party Category	December 31 2019	December 31 2018
Substantive related parties		
Powerchip Technology Corp.	$ -	$ 126,379
Powerchip Semiconductor Manufacturing Corp.	134,387	-
	$ 134,387	$ 126,379

i. Other payable from related parties

Related Party Category	December 31 2019	December 31 2018
Subsidiaries		
Silicon Optronics (Shanghai) Co., Ltd.	$ 3,797	$ 3,413
NUEVA IMAGING, INC.	2,513	2,635
	$ 6,310	$ 6,048

j. Other transactions with related parties

The Company signed a joint development contract with Powerchip Semiconductor Manufacturing Co., Ltd. According to the contract, the Company will provide some machinery and equipment for the purpose of research and development.

k. Compensation of key management personnel

	For the Year Ended December 31 2019	For the Year Ended December 31 2018
Short-term employee benefits	$ 8,208	$ 10,506
Share-based payments	-	9
	$ 8,208	$ 10,515

The remuneration of directors and other major management departments is determined by the remuneration committee in accordance with individual performance and market trends.

26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets of the Company were provided as deposits for the tariff of imported raw materials:

	December 31	
	2019	2018
Pledged time deposits (classified as financial assets a amortized cost-noncurrent)	$ 2,532	$ 2,577

27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than the functional currencies and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

December 31, 2019

	Foreign Currency	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 7,033	29.98(USD:NTD)	$ 210,863
CNY	2,179	4.305(RMB:NTD)	9,382
			$ 220,245
Financial liabilities			
Monetary items			
USD	8,702	29.98(USD:NTD)	$ 260,886

December 31, 2018

	Foreign Currency	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 11,180	30.72(USD:NTD)	$ 343,393
CNY	2,243	4.472(RMB:NTD)	10,030
			$ 353,423
Financial liabilities			
Monetary items			
USD	5,736	30.72(USD:NTD)	$ 176,192

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2019		2018	
Foreign Currency	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)

USD	29.98 (USD:NTD)	$ 2,237	30.72 (USD:NTD)	$ 418
RMB	4.305 (CNY:NTD)	(551)	4.472 (CNY:NTD)	(181)
		$ 1,686		$ 237

28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others: None;

2) Endorsements/guarantees provided: None;

3) Marketable securities held (excluding investments in subsidiaries): None;

4) Marketable securities acquired or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None;

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: None;

6) Disposal 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 of at least NT$100 million or 20% of the paid-in capital: Please see Table 1 attached;

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None;

9) Information about the derivative instruments transaction: None;

10) Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in Mainland China): Please see Table 2 attached;

c. Information on investments in mainland China: Please see Table 3 attached.

SILICON OPTRONICS, INC. AND SUBSIDIARY

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts (Payable) Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Silicon Optronics, Inc.	Powerchip Semiconductor Manufacturing Corp.	Substantive related parties	Purchase	$ 1,032,202	53	Note	-	-	$ (134,387)	52	-
	Powerchip Technology Corp.	Substantive related parties	Purchase	239,460	12	Note	-	-	-	-	-

Note 1: Mainly paid on the 30th days after the month of the invoice date.

SILICON OPTRONICS, INC. AND SUBSIDIARY

NAMES LOCATIONS AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Investor Company	Equity-method Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2019			Net Income of the Equity-method Investee	Investment Income	Note
				December 31, 2019	December 31, 2018	Shares (Thousands)	% of Ownership	Carrying Value			
Silicon Optronics, Inc.	NUEVA IMAGING INC.	USA	Product development design of high order CMOS Image Sensor	$ 358,500	$ 358,500	6,000	100	$ 242,747	$ 4,678	$ (10,953)	Subsidiary
	Silicon Optronics (Cayman) Co., Ltd.	Cayman	Investment holding company	5,237	5,237	170	100	17,479	4,284	4,284	Subsidiary

SILICON OPTRONICS, INC. AND SUBSIDIARY

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (US$ in Thousands)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019 (US$ in Thousands)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019 (US$ in Thousands)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019	Note
					Outward	Inward							
Silicon Optronics (Shanghai) Co., Ltd.	Scale Integration and design of related electronic products, R&D and testing and technical service consulting and transfer of finished products.	US$ 175	Note 1	$ 5,247 (US$ 175)	$ -	$ -	$ 5,247 (US$ 175)	$ 4,284	100	$ 4,284	$ 17,479	$ -	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019 (US$ in Thousands)	Investment Amount Authorized by Investment Commission, MOEA (US$ in Thousands)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (US$ in Thousands)
$ 5,247 (US$ 175)	Note 1	$ 1,248,072

Note 1: Through Silicon Optronics (Cayman) Co., Ltd. investment Silicon Optronics (Shanghai) Co., Ltd., the Amount of Investment Stipulated was approved by Investment Commission, MOEA approved investment amount US$175. (US$ in Thousands)

Note 2: Amount was recognized on the basis of audited financial statements.

Note 3: Based on the exchange rate as of December 31, 2019.

6. **The effect of insolvency of the company and affiliates on the financial Status of the Company:** None.

VII、 Review of Financial Status, Operating Results, and Risk Management

1. **Analysis of Financial Status**

The material reasons for the significant changes in assets, liabilities and shareholders' equity in the most recent two years. If the impact is significant, the future response plan shall be stated.

(1) Analysis of changes in financial positions for the most recent two years:

Unit: NT$ thousands; %

Item \ Year	2019	2018	Difference	
			Amount	%
Current assets	1,651,853	2,142,403	(490,550)	(22.90)
Property, plant and equipment	530,417	48,811	481,606	986.68
Intangible assets	211,280	234,587	(23,307)	(9.94)
Other assets	43,002	15,223	27,779	182.48
Total assets	2,436,552	2,441,024	(4,472)	(0.18)
Current liabilities	339,054	271,641	67,413	24.82
Other liabilities	17,378	41	17,337	42,285.37
Total liabilities	356,432	271,682	84,750	31.19
Equity attributable to shareholders of the company	-	-	-	-
Capital stock	780,809	778,279	2,530	0.33
Capital surplus	1,131,702	1,124,721	6,981	0.62
Retained earnings	266,969	265,952	1,017	0.38
Other equity	(2,365)	390	(2,755)	(706.41)
Treasury stocks	(96,995)	-	(96,995)	-
Non-controlling interests	-	-	-	-
Total shareholders' equity	2,080,120	2,169,342	(89,222)	(4.11)

Reasons for changes in the two periods:
1. Decrease in current assets: Payment of equipment.
2. Increase in property, plant and equipment: New capital expenditure in the current period.
3. Increase in other assets: Due to increase in Right-of-use assets.
4. Increase in current liabilities: Increased film production volume and increased processing fees for new product lines.
5. Increase in other equity interest: Mainly due to increase in exchange difference from the financial statements of foreign operations.

(2) Impact of changes in the financial status for the most recent two fiscal years: None.

(3) Future response plans: Not applicable.

2. Analysis of Operation Results

The main reasons for the material changes in operating revenues, operating profit and net profit before tax in the most recent two years, a sales volume forecast and the basis therefor, and the possible impact on the company's financial operations, and response plans:

(1) Analysis of changes in operating results for the most recent two years:

Unit: NT$ thousands; %

Item \ Year	2019	2018	Amount of increase/decrease	Change (%)
Net sales	2,294,110	2,034,267	259,843	12.77
Gross profit	457,531	469,799	(12,268)	(2.61)
Operating income	156,051	180,054	(24,003)	(13.33)
Non-operating income and expenses	26,059	9,919	16,140	162.72
Pre-tax income	182,110	189,973	(7,863)	(4.14)
Income from operations of continued segments - after tax	156,010	157,432	(1,422)	(0.90)
Income from discontinued operations	-	-	-	-
Net income	156,010	157,432	(1,422)	(0.90)
Other comprehensive income (loss)	(1,793)	860	(2,653)	(308.49)
Total comprehensive income	154,217	158,292	(4,075)	(2.57)
Net profit attributable to the parent company	-	-	-	-
Net profit attributable to the non-controlling interest	-	-	-	-
Total comprehensive income attributable to owner of the parent company	-	-	-	-
Total comprehensive income attributable to the non-controlling interest	-	-	-	-
EPS	2.01	2.17	(0.16)	(7.37)

Reasons for changes in the two periods:

1. Decrease in operating profit: Due to the decrease in gross profit and the increase in R&D expenses in 2019.
2. Increase in non-operating expenses: Due to the exchange gains in 2019 and the increase in Interest Income.
3. Decrease in net profit and comprehensive income: Mainly due to decrease in gross profit in 2019, leading to decreased overall profit.

(2) Expected sales volume and its possible impact on the company's future financial operations: Expected sales volumes and sales growth are of great help for future profitability.

(3) Future response plans: Actively develop new products and markets.

3. Analysis of Cash Flow

Analysis of cash flow changes during the most recent fiscal year, improvement plan for illiquidity and provide a liquidity analysis for the coming year:

(1) Analysis of changes in cash flow for the most recent year is as follows:

Unit: NT$ thousands; %

Item \ Year	2019	2018	Change (%)
Cash flow ratio	38.01	52.71	-27.89
Cash flow adequacy ratio	30.06	39.18	-23.28
Cash reinvestment ratio	(1.42)	0.34	-517.65

Analysis of the changes in cash flow:

1. Decrease in cash flow adequacy ratio:Due to the increase in inventory, resulting in the net cash inflow from operating activities.

(2) Improvement plans for cash inadequacy: In view of the company's current cash position, there is no concerns about illiquidity and shortage of cash.

(3) Cash liquidity analysis for the coming fiscal year.

Unit: NT$ thousands

Cash and cash equivalents beginning of year A	Projected net cash flow from operating activities for the year B	Projected cash outflow for the year C	Expected cash surplus (inadequacy) amount A+B-C	Remedial measures for cash inadequacy	
				Investment plans	Financial plans
541,706	89,151	(167,284)	463,573	-	-

Analysis of changes in cash flow:

1. Operating activities: Cash inflow from operating activities was expected to grow in revenue and profit from operations in 2019.
2. Investment activities: Mainly for the purchase of fixed asset, such as the purchase of masks for new products.
3. Financing activities: Mainly due to the accrued amount of cash dividends.

4. The effect of material capital expenditures on financial position and operation:

The company purchased equipment in 2019 for NTD 472,972,000, source of funds is own funds. According to the company's profit situation, there is no significant adverse impact on the financial situation.

5. Direct Investment Policy, Reasons for Profit or Loss, Correction Plan and Investment Plan for the Coming Year: None.

6. Risk Management

(1) The impact of interest rate fluctuations, exchange rate fluctuations, and inflation on the

a. Company’s earnings and coping strategies:Interest rate:

The company estimates that there is no NT dollar or foreign currency borrowing demand in the upcoming fiscal year, so there is no need to evade the risk of interest expenses arising from interest rate hikes. The company has appropriate funding channels to meet the needs of business development and maintain good relationship with each correspondent bank. The company will consider the available facilities from various sources of capital and their cost of capital, as well as making a comprehensive consideration for the business development plans, so as to raise the required funds. Therefore, the impact on the company's profit and loss is not significant.

b. Foreign exchange rates:

As the company's receivables and payables are mainly denominated in foreign currency (US dollars), the exchange rate risk caused by exchange rate fluctuations can be largely avoided. However, depending on the trend of the global economy as a whole, appropriate measures should be taken to avoid the risk of foreign currency fluctuations.

c. Inflation:

The impact of inflation does not currently have a significant impact on the company’s profits and business operations. If the company's purchase cost is affected by inflation, the incremental cost can be marked up on to the sales price, so inflation has no significant effect on the company's profit and loss.

(2) High leverage/high risk investment, loans to third parties, endorsements and guarantees, and policies in derivatives transactions, reasons for profits/losses and coping strategies：

The company currently does not engage in high-risk, high-leveraged investments, lending or endorsement guarantees, and derivative transactions. The company has established the "Procedures Governing the Acquisition and Disposal of Assets", "Procedures Governing Making of Endorsements and Guarantees" and "Procedures Governing Loaning of Funds to Other Parties" to regulate the transactions of high-risk, high-leveraged investments, loaning of funds to other parties, endorsements and guarantees, and derivatives trading in accordance with relevant laws and regulations.

(3) Future Development Plan and Expected R&D Expenditure

(1) Future R&D plans

The company's most important core technology is the development of CMOS image sensor related sensing circuits, analog, digital and mixed signals, from circuit design, process technology, to optical simulation, etc., providing customers with the best solution and exclusive design and process for customer needs. Developing CMOS image sensor for special applications in combination with high-precision processing technology in Taiwan's semiconductor industry; the future R&D plans include:

(a) High-performance CMOS Image Sensor.
(b) High-resolution CMOS Image Sensor.
(c) Global Shutter CMOS Image Sensor.
(d) Low Power Consumption CMOS Image Sensor.
(e) Special application sensor design and development.

(2) Estimated R&D expenditure

The R&D expenses that the company expects to invest in the future will be listed according to the company's internal research plans, and depending on the research and development progress, the technology involved, and the staged results, the R&D expenses budget will be increased or decreased after discussion at the company's internal supervisory meetings.

(4) Potential Impact associated with Domestic or International Political/Regulatory Changes and the Response Measures

The company's daily operations are handled in accordance with the relevant domestic and foreign laws and regulations, and at any time pay attention to the development trend of domestic and foreign policies and changes in regulations and collect relevant information to provide operational decision-making reference to adjust the company's relevant operational strategies. As of now, the company's financial operation has not been affected by important changes of domestic and foreign policies and laws.

(5) Potential Impact associated with Domestic or International Industry/Technology Evolution and the Response Measures

Through the close strategic cooperation with suppliers in the past, and the company's own research and development capabilities, the company can quickly grasp the industry dynamics and obtain market information ahead of its peers. Therefore, technological and industrial changes have a positive impact on the company.

The company's main products have been widely accepted by customers, and market demand continues to expand. The company also actively enhances research and development capabilities and strengthens outsourcing capacity, and grasps industry dynamics and the market information, adopting a robust financial management strategy to maintain market competitiveness.

In the future, the company will continue to pay attention to the situation of technological changes and evaluate its impact on the operations of the company, and adjust the company's business development and financial status accordingly.

(6) Potential Impact on Crisis Management associated with Changes in Corporate Image and the Response Measures

Since its incorporation, the company has been committed to maintaining its corporate image and complying with the laws and regulations, and there has not been enough to affect the corporate image so far. In the future, while pursuing revenue growth and maximizing shareholders' equity, the company will also comply with the government regulations and fulfill corporate social responsibility to continuously maintain good corporate image of the company.

(7) Potential Impact associated with Mergers/Acquisitions and the Response Measures: Not applicable.

(8) Potential Impact associated with Capacity Expansion and the Response Measures: Not applicable.

(9) Risks of purchasing and sales concentration and coping strategies

a. Procurement

The company is a fabless professional IC design company, the main purchase project is wafer procurement. In the value chain of the semiconductor industry, IC design houses tend to maintain long-term cooperation with specific foundries in order to achieve reliable and stable production capacity, as well as factors such as process technology, yield, capacity and delivery. This is a common phenomenon among IC design houses. The company has been in good relationship with Powerchip / PTC and B Company for many years. The relationship between the two parties is good. In the future, we will continue to cooperate on fields such as new product development and mass production in order to reduce the risk of concentrated purchase.

b. Turnover

The company's main sales market and end-users are both in mainland China. Mainland China has a vast territory, and there are differences in business activities and trading habits. The company evaluates the market characteristics and connections of dealers, and has the service experience of end-product applications. It can quickly serve end-customers and develop new markets. The company fully grasps the operation of the dealers, and adopts the advance payment as the dealer's payment terms to increase the working capital turnover rate and reduce the overdue risk of accounts receivable in mainland China. The company's technical support directly serves the end customers, keeps abreast of customer needs, and reduce the risk that sales of goods will be concentrated in the dealers. At the same time, with the introduction of future image sequencing wafers and other related image sensing chip products, the product sales and operation scale will be expanded, and the concentration of customers should be reduced in the future.

(10) The impact and risk of the transfer of shares in huge volumes by Directors, Supervisors,or major shareholders on the Company, and the Coping Strategies: None.

(11) The impact and risk of change in management on the Company, and the measures to cope with: None.

(12) Risks Associated with Litigations

a. Material litigious, non-litigious or administrative disputes that are currently still open: None.

b. The company's directors, supervisors, general managers, substantive directors, shareholders holding more than 10% of the shares and subordinate companies have decided to determine or are still in the system of material litigation, non-litigation or administrative litigation. The result may have a significant influence on shareholders' equity or securities prices: None.

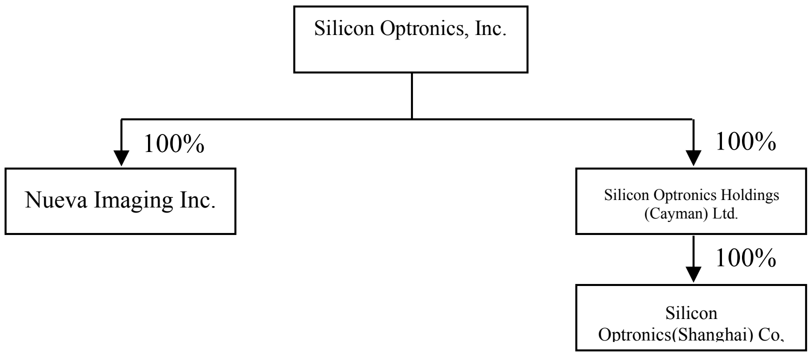
(13) Other material risks: None.

7. **Other Important Notices:** None.

VIII、 Special Disclosure

1. Summary of Affiliated Enterprises:

(1) Organizational Chart of Related Companies



(2) Basic information of related companies:

Unit: US$

Name	Date of Incorporation	Address	Paid-in capital	Main Business Projects
Nueva Imaging Inc.	2010.05.27	4030 Moorpark Ave Ste 248 San Jose, CA95, 117 U.S.A	600	R&D design of high-end CMOS Image Sensor products
Silicon Optronics Holdings (Cayman) Ltd.	2013.04.26	4F, Willow House, Cricket Square, P.O. Box 2582, Grand Cayman KY1-1103	177,550	Investment holding
Silicon Optronics (Shanghai) Co, Ltd.	2013.12.25	Suite 603, Building 1, No.2966, Jinke Road, Zhangjiang Hi-tech Industrial Park, Pudong New District, Shanghai City, China	175,000	Design development of integrated circuit and related electronic products and testing along with technical service consulting and transfer of research and development results

(3) The industry covered by the related companies: Please refer to Paragraph (2).

(4) For those who have established control and subordination-related relationships as defined in Article 369-3 of the Company Act: Please refer to Paragraph (2).

(5) Information on Directors, Supervisors, Managerial Officers, and Managerial Officers

Name of business	Title	Name or representative	Number of Shares Held	Shareholding Ratio
Nueva Imaging Inc.	Chairman	Silicon Optronics, Inc. (Representative: James He)	6,000,000	100%
Silicon Optronics Holdings (Cayman) Ltd.	Chairman	Silicon Optronics, Inc. (Representative: James He)	170,000	100%
Silicon Optronics (Shanghai) Co, Ltd.	Executive Directors Supervisors	Silicon Optronics, Inc. (Representative: Terry Li) Silicon Optronics, Inc. (Representative: Steffi Huang)	175,000	100%

(6) Operating status of each related company:

Date: Dec. 31st, 2019; Unit: NT$ thousands

Company name	Capital	Total assets	Total liabilities	Net value	Revenue	Income From Operation	Net Income	EPS (NT$) (after tax)
Nueva Imaging Inc.	18	51,908	8,389	43,519	43,279	4,635	4,678	0.78
Silicon Optronics Holdings (Cayman) Ltd.	5,237	45,687	28,207	17,480	-	-	4,284	25.20
Silicon Optronics (Shanghai) Co, Ltd.	5,161	45,687	28,207	17,480	60,501	4,990	4,284	24.48

(7) Consolidated financial statements of the related companies: Please refer to #pages 65 to 160#.

(8) Declaration of consolidation of financial statements of affiliates: Please refer to #pages 65#.

2. Status of Private Placement Securities: None.

3. Acquisition or Disposal of SOI's shares by Subsidiaries: None.

4. Other Necessary Supplements: None.

5. Events regulated in Article 36-3-2 of the Securities and Exchange Laws that will materially affect shareholder's equity or the share price: None.

Silicon Optronics, Inc.

Chairman and President: James He