

NOVATEK MICROELECTRONICS CORP.

2020 Annual Report

- I. Taiwan Stock Exchange Market Observation Post System: <http://mops.twse.com.tw>
- II. Novatek annual report is available at <http://www.novatek.com.tw>

Printed on April 30, 2021

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.

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Title: Director of Finance Division

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Tel: (02) 6600-6676

Tainan Office: 9F, No 30, Zhongzheng S. Road, Yongkang Dist., Tainan, Taiwan, R.O.C.

Tel: (06) 251-7306

III. Transfer Agent:

Company: Horizon Securities

Address: 3F, No.236, Sec. 4, Xinyi Rd, Taipei, Taiwan, R.O.C.

Tel: (02) 2326-8818

Website: www.honsec.com.tw

IV. Auditor:

Company: Ernst & Young

Auditors: Hans Chen, Eric Kuo

Address: 9F, No.333, Sec.1, Keelung Rd., Taipei, Taiwan, R.O.C.

Tel: (02) 2757-8888

Website: www.ey.com

V. Name of overseas securities dealers and methods to inquire into overseas securities:

Not Applicable

VI. Company website: www.novatek.com.tw

Novatek Microelectronics Corp.

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I. Letter to the Shareholders

Dear Shareholders,

I. Business plan implementation and operating results of 2020

Although the global economy has been severely impacted by the COVID-19 pandemic and the US-China trade war in 2020, with our employees' dedication, Novatek's annual revenue and net income once again set a new record high. The annual revenue reached NT\$79.956 billion from NT\$64.372 billion of the previous year, showing an increase of 24.2%. The gross margin rose to 34.97% from 32.02%, 2.95 percent point growth over 2019. Net income achieved NT\$11.817 billion, showing an increase of 49.1% compared to NT\$7.927 billion of the previous year, while the earnings per share was NT\$19.42, both of which achieved a record high since the company went public.

Benefiting from the rapid penetration of 5G smartphones and the demand for high-resolution displays, as well as the rising adoption of OLED panels at mobile phones in China, Novatek has made a giant leap in the revenue of TDDI product, doubling the shipment volume of OLED DDIC, which boosted Novatek's market share. Owing to the blossoming stay-at-home economy, i.e., working from home; distance learning; and online games, the demand for terminal devices such as laptops, TVs and gaming monitors has been expanding, which increased Novatek's shipments in power management ICs and TV SoC, making the revenue of large-size driver IC to grow continuously. In addition, surveillance products were developed to successfully grasp leading brand customers and reinforced our business revenue. Moreover, with the introduction of new products and the improvement of product portfolio, as well as the grasp of production capacity and flexibility in supply chain, Novatek has delivered outstanding performance in 2020.

Novatek is committed to improving corporate governance, combining sustainable strategies to formulate short-, medium- and long-term corporate social responsibility goals, and collaborating with suppliers to implement supplier sustainable management. In the aspect of long-term cultivation for higher education's technology talents in Taiwan, the Company has conducted 16 Industry-Academia R&D collaboration projects with four domestic colleges and universities in 2020, and offered scholarships to graduate students from seven faculties in six domestic universities through our Novatek Education Foundation. Regarding social care services, the Company has sponsored the "Yunlin Summer Story Camp for Disadvantaged School Children"; the Yunlin and Hualien rural elementary schools' reading promotion project; and the Hsinchu County rural elementary schools' Night Angel Illumination Program, calling on its employees to participate in volunteer services and giving back to the community through the joint efforts of corporate volunteers.

II. Research development status of 2020

To maintain our technological leadership position and reinforce our growth momentum, Novatek actively recruits and retains outstanding R&D talents, and continues to increase R&D investment. In

2020, R&D expenses amounted to NT\$10.994 billion, which increased by 23.5% year-over-year from NT\$8.902 billion in 2019. In terms of product and technology deployment, with the rising adoption of 5G network and smartphones in the global market, and the demand of high transmission rate and high refresh rate for mobile device displays, the Company has grasped market trend and ahead launched the 120Hz high-speed full-screen AMOLED driver IC and the FTDI 120Hz driver IC integrated with touch, display, and fingerprint in one chip. For automotive TDDI, the Company has successfully developed the automotive touch display driver IC with the function of high signal-to-noise ratio, low electromagnetic radiation and anti-electromagnetic interference. In response to the launching of new 8K TVs into the consumer market by global TV manufacturers, the Company kept pace with market trends to introduce new generation 8K 120Hz driver IC with ultra-narrow bezel, 8K60Hz high-resolution TV SoC with AI image enhancement as well as timing control, and 4K video codec single chip equipped with artificial intelligence, capturing business opportunities and boosting revenue. In gaming laptops, the Company launched the power-saving, high-resolution OLED timing control single chip and the integrated high-speed audio-visual interface display single chip, gaining popularity in the market.

III. Business guideline and plan for 2021

Facing an intensely competitive landscape and rapid changes in the terminal consumer market, Novatek will continue to strengthen the R&D of pioneer technologies, creating more barriers to increase its competitiveness. With the continuous expansion of the 5G baseband chips deployment to the mid-level smartphone market brought by mobile processor manufacturers, the market penetration rate for 5G and OLED smartphones will continue to rise. Along with firm leadership in TDDI shipments of mobile phone, the Company will accelerate the launch of OLED TDDI and expand its OLED customers. With the resuming consumer demand and the increasing popularity of electric vehicles, the demand for automotive electronics will grow substantially, which IHS predicts that the automotive semiconductor market will increase by 18%. In order to seize the business opportunities in electric vehicles, the Company will also launch a total-solution project, integrated with touch display chips and large-size automotive panels. In view of the demand of displays moving towards high-resolution and power-saving, and the maturity of Mini LED technology, the Company will actively deepen its dedication to the R&D of related technologies and develop corresponding display chips, helping boost up the company's revenue. Regarding product diversification, the competitiveness of SoC technology and the improvement of development schedule will boost the market share of SoC products. Furthermore, together with the integration of product technology, the Company will develop value-added products that combine drivers, touch, and high-speed signal transmission interfaces and expand to brand system companies, which will create the momentum for long-term revenue growth.

Due to the continuous rise in business opportunities of stay-at-home economy derived from the pandemic in 2021, the demand for terminal applications such as TVs, laptops and tablets sustains a steady expansion of demand, and the global smartphone shipments will resume growth, which will

expand IC design market dollar value. Based on its excellent R&D team and innovative technology capabilities, Novatek will grab share at display market. However, with the IC design talent shortage and strong demand, Novatek will continue to optimize the talent cultivation and development environment, strengthen talent stability and centripetal force, and improve competitiveness of compensation and welfare to attract more outstanding talents, and actively expand R&D manpower. In response to the short supply of foundry capacity and the spreading-over effect, the Company will enhance strategy of supply chain, set a forward-looking, fast and flexible manufacturing sales plan, improving production quality and efficiency. In addition, the Company continues to strengthen the relationship with international brand customer to increase customer engagement and improve delivery flexibility, which will meet customer need and market change and lay the foundation for growth in the future.

IV. Future development strategies, and impact by external competition, regulatory and macroeconomic environment

Looking ahead, as the development of COVID-19 vaccine and treatment is making progress, the growth of global economy is expected to resume but the momentum of growth will still be limited. Given the ongoing friction in US-China trade, and the hidden threats of economic outlook brought by the easing monetary policy, the global economy in 2021 is still highly uncertain. Moreover, owing to the increasing subsidies from China, the US, Japan, and South Korea into their domestic IC industry in enhancing capability of independent development and developing semiconductor supply chain, IC design industry has faced stiff challenges. In response to the severe market environment, Novatek will take flexible management strategies and integrate with internal technologies or external collaboration to lead the development of innovative, value and differentiated products with a strong financial position and technological advantages, as well as work closely with its supply chain, reinforcing medium- and long-term growth momentum. Moreover, the Company values corporate governance and has always sought to fulfill its corporate social responsibility and environmental protection laws, pursuing sustainable development and enhancing long-term shareholder interests.

We wish you all health and happiness.

Sincerest regards,

Chairman

Tai-Shung, Ho

President and Vice Chairman

Steve Wang

II. Company Overview

A. Date incorporated

May 28, 1997

B. Milestones

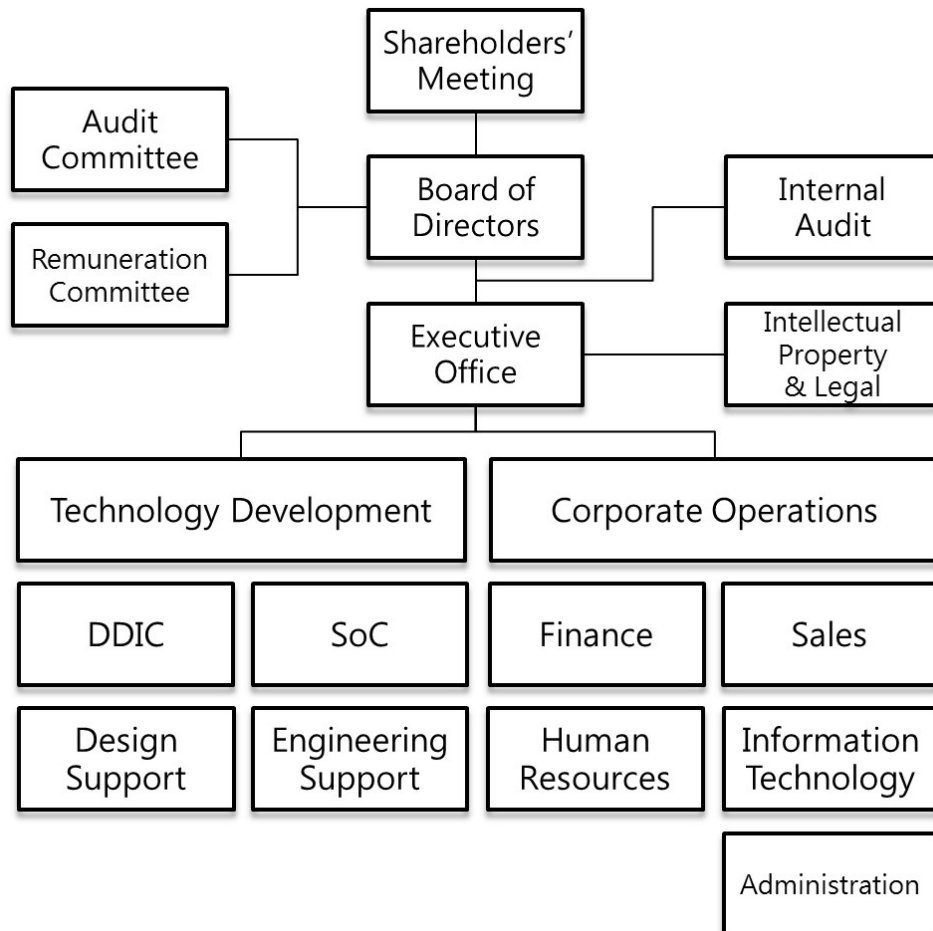
- 1997 May Novatek established from the commercial products division of United Microelectronics Corp.
- 1997 July Novatek begins official operations.
- 1997 Nov Cash capitalization of \$300 million for a total capital of \$600 million.
- 1999 July Shares begin public trading.
- 2000 Dec Initial public offering on OTC market approved by SEC.
- 2001 Apr Listed on OTC market; stock code: 5499.
- 2001 Oct Establishes Novatek Japan subsidiary to better serve Japanese customers.
- 2002 Aug Listed on Taiwan Stock Exchange main board; stock code: 3034.
- 2002 Sep Establishes Novatek (Suzhou) subsidiary to reinforce its service customers in China.
- 2003 Jan Technology Building is completed and begins operation.
- 2003 Dec Agreement reached with Wiseware for a merging of the two companies.
- 2004 Mar Merges with Wiseware by issuing new shares totaling \$45 million.
- 2006 Sep Purchase 53.63% ownership of office building and facilities from Media Tek Inc., which located in No.1-2, Innovation Road I, Hsinchu Science Park.
- 2007 May Purchases office space at the Lyons Technology Center on Ruiguang Road to serve as Novatek's Taipei office.
- 2007 Nov Novatek Board of Directors passes resolution to merge with Cheertek Inc.
- 2008 Apr Taiwan Financial Supervisory Commission approved the issuance of new shares for the merger of Novatek and Cheertek.
- 2009 Dec Consolidated sales revenue totaled NT\$27.013 billion with consolidated net income of NT\$4.018 billion.
- 2010 Dec Consolidated sales revenue totaled NT\$36.316 billion with consolidated net income of NT\$4.584 billion
- 2011 Aug Establishes Novatek (Xian) subsidiary, mainly engaged in computer software design, computer systems integration services, offering technology consulting and after-sales services for its customers in China.
- 2011 Dec Consolidated sales revenue totaled NT\$35.070 billion with consolidated net income of NT\$3.695 billion.
- 2012 Dec Consolidated sales revenue totaled NT\$37.029 billion with consolidated net income of NT\$4.440 billion.
- 2013 Dec Consolidated sales revenue totaled NT\$41.450 billion with consolidated net income of NT\$4.745 billion.
- 2014 Dec Consolidated sales revenue totaled NT\$54.067 billion with consolidated net income of NT\$7.209 billion.
- 2015 Feb Establishes Novatek (Shenzhen) subsidiary, mainly engaged in design and testing of semiconductor application software, and offering customer service.
- 2015 Dec Consolidated sales revenue totaled NT\$50.87 billion with consolidated net income of NT\$6.399 billion.
- 2016 Dec Consolidated sales revenue totaled NT\$45.65 billion with consolidated net income of NT\$5.004 billion.

2017 Jan	Novatek Board of Directors passes resolution to acquire surveillance business from Faraday Technology Corporation, which includes DVR and IP-Cam SOC and other products, along with related intellectual property, technology, and fixed asset.
2017 Dec	Consolidated sales revenue totaled NT\$47.074 billion with consolidated net income of NT\$5.024 billion.
2018 Dec	Consolidated sales revenue totaled NT\$54.834 billion with consolidated net income of NT\$6.391 billion.
2019 Dec	Consolidated sales revenue totaled NT\$64.372 billion with consolidated net income of NT\$7.927 billion.
2020 Apr	Introduced HDMI 2.1 12G + DP1.4 8.1G gaming monitor single chip solution.
2020 Apr	Introduced 4K Micro OLED DDIC, advanced bonding technology realized chip on silicon process.
2020 Sep	Launched FTDI 120Hz driver IC which touch, display and fingerprint technologies are integrated in one chip for mobile LTPS type display.
2020 Nov	Introduced optical FPR sensor with anti-spoofing for under OLED solution.
2020 Nov	Establishes Novatek Zhubei branch.
2020 Dec	Chosen as a component in FTSE4Good TIP Taiwan ESG Index.
2020 Dec	Consolidated sales revenue totaled NT\$79.956 billion with consolidated net income of NT\$11.817 billion.

III. Corporate Governance

A. Company Organization

1. Organization Chart:



2. Organization and its respective functions:

Department	Key Responsibilities
DDIC	Research and development of panel driver chip, organic light-emitting diode driver chip, LED driver chip and automotive electronics, and power/analog related IC product planning.
SoC	Research and development of digital TV products, digital consumer products and image sensors.
Design Support	IP development, IC physical design engineering, software and hardware development and design.
Engineering Support	Product development and mass production, quality and reliability management, customer satisfaction management, production planning and procurement.
Sales	Product sales, customer development, customer relationship maintenance etc.
Intellectual Property & Legal	Corporate law, business contracts, patents and other intellectual property rights management.
Finance	Capital and asset management, financial accounting management, tax management, stock operations, etc.
Human Resources	Human resource management, training and development, remuneration management, etc.
Information Technology	Information system framework, operations and production information management, information security management etc.
Administrative	Employee Relationship, General affairs, plant operations, and industrial safety and health etc.

B. Information of Directors and Officials

1. Directors' information

a. Directors' information table

April 10, 2021; Unit: K. shares, %

Title	Nationality/ Country of Origin	Name	Gender	Date elected (appointed)	Term of Office	Date first Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Other Selected Current Positions	Managers are Spouse or within Second- degree Relatives of Consanguinity to Each Other (Note 2)		
							Share	%	Share	%	Share	%	Share	%			Title	Name	Relation
Chairman	R.O.C	Tai-Shung, Ho	Male	2018.6.8	3 years	1997.5.13	8,515	1.40	8,515	1.40	-	-	-	-	Master of Electronic Engineering, National Tsing Hua University Division Director of Commercial Product Business, UMC	Chairman of Novatek Chairman of NTK International Limited Chairman of Novatek Japan Kabushiki-Kaisha Director of Coretronic Corp. (Representative of Hsun Chieh Investment Co., Ltd.)	-	-	-
Vice Chairman	R.O.C	Steve Wang	Male	2018.6.8	3 years	2003.6.9	2,954	0.49	2,844	0.47	-	-	-	-	Bachelor of Electronic Engineering, Chung Yuan Christian University Vice President of AU Optonics Corp	Vice Chairman of Novatek Chairman of Novatek (Shenzhen) Co., Ltd. Chairman of Novatek (Suzhou) Co., Ltd. Chairman of Novatek (Xian) Co., Ltd. Chairman of Novatek (Shanghai) Co., Ltd.	-	-	-
Director	R.O.C	J.H. Chang	Male	2018.6.8	3 years	2018.6.8	76	0.01	76	0.01	-	-	-	-	Ph.D. of Computer Science, University of California, Berkeley IBM TJ Watson Research Center, Research Staff Member Sun Microsystems, Design Manager Trident Microsystems, CTO, VP of Engineering, President Senior Vice President of Novatek, President of VISG	Director of Novatek (Xian) Co., Ltd. Director of Novatek (Shanghai) Co., Ltd.	-	-	-
Institutional Director	R.O.C	United Microelectronics Corp. (UMC)	-	2018.6.8	3 years	1997.5.13	16,445	2.70	16,445	2.70	-	-	-	-	-	-	-	-	-
(Note 1)	R.O.C	Chi-Tung, Liu	Male	2018.6.8	3 years	2003.6.9	-	-	-	-	-	-	-	-	Senior Vice President and CFO of UMC EMBA, Business Administration, National Taiwan University	Director of Fortune Venture Capital Corp. Director of TLC Capital Co., LTD. Director of Unimicron Technology Corp. Director of HeJian Technology (Suzhou) Co., Ltd.	-	-	-
Director	R.O.C	Max Wu	Male	2018.6.8	3 years	2006.6.12	-	-	-	-	-	-	-	-	Bachelor of Electrical Engineering, National Chiao Tung University Partner of InveStar Capital President of Acer America Corporation Chairman of Hua Nan Management & Consulting Co., Ltd. Chairman of Spring Foundation of NCTU	Chairman of Birch Venture Capital Director of YODN Lighting Corp. Independent Director of Apacer Technology Inc. Independent Director of ANTEC INC. Independent Director of Gigastone Corp. Independent Director of Harvatek Corp.	-	-	-
Independent Director	R.O.C	Chen-en, Ko	Male	2018.6.8	3 years	2012.6.6	-	-	-	-	-	-	-	-	Honorary Professor of Department of Accounting, National Taiwan University Dean, College of Management, National Taiwan University Graduate Chair & Chairperson of Department of Accounting, National Taiwan University Chairman & Dean of Chung-Hua Institution for Economic Research	Independent Director of EVERLIGHT ELECTRONICS Co., Ltd.	-	-	-
Independent Director	R.O.C	Max Fang	Male	2018.6.8	3 years	2012.6.6	-	-	-	-	-	-	-	-	Business Administration Seminar, National Chengchi University Bachelor of Management Science, National Chiao Tung University President of Asia Purchasing Department, Dell President of Yi Pin International Co., Ltd	Chairman of Maxima Capital Management, Inc. Chairman of Maxima International Capital Management (BVI), Inc., Taiwan Branch Director of Braingenesis Biotechnology Co., Ltd	-	-	-
Independent Director	R.O.C	Jack Tsai	Male	2018.6.8	3 years	2012.6.6	-	-	-	-	-	-	-	-	Master of Computer Science, George Washington University Bachelor of Computer Science, National Chiao Tung University President of Heidrick & Struggles (Taiwan) President of Accenture (aka Andersen Consulting) (Taiwan) Chief Adviser of AGS, Maryland, USA	The CID Group Partner and COO Director of Advanced Power Electronics Corp.	-	-	-

Note 1: Chi-Tung Liu is authorized by institutional director, UMC to attend the meetings of the current session of the Board of Directors.

Note 2: President (or someone with an equivalent job responsibility, i.e. the highest ranking manager of the company) and Chairman are not (1) the same person, (2) in a material relationship with each other, or (3) within one degree of consanguinity.

b. List of Institutional Shareholders of Novatek's Major Institutional Shareholders

Institutional Shareholders	Major Shareholder of Institutional Shareholders	Percentage of Shares Held by Novatek's Institutional Shareholders (Note)
United Microelectronics Corp.	JP Morgan, as representative of holders of UMC ADRs	5.63
	Hsun Chieh Investment Co., Ltd.	3.61
	Nan Shan Life Insurance Co., Ltd	2.60
	Silicon Integrated Systems Corp.	2.33
	Yann Yuan Investment Co., Ltd.	1.64
	New Labor Pension Fund	1.60
	Cathy Life Insurance Co., Ltd	1.54
	JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	1.46
	HSBC in custody for T. Rowe Price Insurance Inc.	1.24
	JP Morgan Chase Bank, as the custodian of ABP Pension Fund Portfolio	1.15

Note: The shareholdings are as of April 12, 2020, the book closure date of UMC.

c. List of Institutional Shareholders of Novatek's Major Institutional Shareholders

Name	Major Shareholders of the Institutional Shareholders	Percentage of Shares Held by Institutional Shareholders
JPMorgan, as representative of holders of UMC ADRs	Inapplicable	Inapplicable
Hsun Chieh Investment Co., Ltd.	Hsieh Yung Investment Co. Ltd.	63.48
	United Microelectronics Corp.	36.49
Nan Shan Life Insurance Co., Ltd (Note 1)	First Commercial Bank Trustee Account For Representative of Ruen Chen Investment Holding Co., Ltd.	55.56
	Ruen Chen Investment Holding Co., Ltd.	33.99
	Y. T. Du	2.90
	RUEN TAI SHING Co., Ltd.	0.30
	RUEN HUA DYEING & WEAVING Co., Ltd.	0.27
	RUENTEX DEVELOPMENT Co., Ltd.	0.23
	RUENTEX INDUSTRIES Ltd.	0.21
	Yen Sin Corporation	0.16
	Ruentex Leasing Co., Ltd.	0.13
	Chi-Pin Investment Company	0.11
Silicon Integrated Systems Corp. (Note 2)	United Microelectronics Corp.	19.02
	Hsun Chieh Investment Co., Ltd.	3.16
	Shin-Sen, Liu	1.38

Name	Major Shareholders of the Institutional Shareholders	Percentage of Shares Held by Institutional Shareholders
Silicon Integrated Systems Corp. (Note 2)	Vanguard Emerging Markets Stock Index Fund	1.12
	Credit Suisse Securities (Europe) Limited	1.10
	JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	1.04
	Yong Jin Investment Co., Ltd.	0.63
	J.P. MORGAN SECURITIES PLC	0.51
	Tsung-Ming, Chuang	0.48
	Wen-Xi, Chen	0.45
Yann Yuan Investment Co., Ltd. (Note 3)	Siliconware Investment Co., Ltd.	32.21
	United Microelectronics Corp.	30.87
	King Yuan Electronics Corp.	16.78
	Unimicron Technology Corp.	13.42
	Sigurd Microelectronics Corp.	4.03
New Labor Pension Fund	Inapplicable	Inapplicable
Cathy Life Insurance Co., Ltd	Cathy Financial Holdings	100.00
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	Inapplicable	Inapplicable
HSBC in custody for T. Rowe Price Insurance Inc.	Inapplicable	Inapplicable
JP Morgan Chase Bank, as the custodian of ABP Pension Fund Portfolio	Inapplicable	Inapplicable

Note 1: The shareholdings are as of Jan. 31, 2021.

Note 2: The shareholdings are as of Sep. 29, 2020.

Note 3: The shareholdings are as of Dec. 31, 2020.

d. Professional Background and Independence of Directors

April 10, 2021

Name	Criteria	Possess five or more years of experience and the following professional qualifications			Independence Status (Note 1)												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	Specialist passing national exams with certification in business, law, finance, accounting or other subject related to company activity	Work experience in business, law, finance, accounting or other subject related to company activity	1	2	3	4	5	6	7	8	9	10	11	12	
Tai-Shung, Ho			v						v	v	v	v	v	v	v	v	0
Steve Wang			v				v		v	v	v	v	v	v	v	v	0
J.H. Chang			v				v	v	v	v	v	v	v	v	v	v	0
UMC		(Note 2)			v			v		v	v		v	v	v		Inapplicable
Chi-Tung, Liu (Note 3)			v		v		v	v		v	v		v	v	v	v	0
Max Wu			v		v		v	v	v	v	v	v	v	v	v	v	3
Chen-en, Ko	v		v		v	v	v	v	v	v	v	v	v	v	v	v	1
Max Fang			v		v	v	v	v	v	v	v	v	v	v	v	v	0
Jack Tsai			v		v	v	v	v	v	v	v	v	v	v	v	v	0

Note 1: "v" indicates the conditions listed met during the director's terms and two years prior.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a director or supervisor of the company or any of its affiliates.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, more than 1% of the company's outstanding shares, nor one of the company's top ten natural-person shareholders.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the officer in the preceding 1 subparagraph, or of any of the above persons in the preceding subparagraphs 2 and 3.
- (5) Not a director, supervisor, or employee of a corporate/ institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) serving on the company's board based on Article 27 of the Company Law.
- (6) Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company.
- (7) Not a director, supervisor, or employee of a company of which the chairman or CEO (or equivalent) themselves or their spouse also serve as the same company's chairman or CEO (or equivalent).
- (8) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company.
- (9) Other than serving as a compensation committee member of the company, not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, and the service provided is an "audit service" or a "non-audit service which total compensation within the recent two years exceeds NTD500,000".
- (10) Not a spouse or relative within the second degree of kinship to any of other directors.
- (11) Not under any condition pursuant to Article 30 of the ROC Company Law.
- (12) Not a juridical person or its representative as defined in Article 27 of Company Law

Note 2: Inapplicable.

Note 3: Chi-Tung Liu is authorized by institutional director, UMC to attend the meetings of the current session of the Board of Directors.

2. Information on President and Vice Presidents

April 10, 2021; Unit: K shares, %

Title	Nationality	Name	Gender	Date elected (appointed)	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience & Education (Note 1)	Serves concurrently as	Managers who are spouse or second-degree relative (Note 2)		
					Total	%	Total	%	Total	%			Title	Name	Relation
President	R.O.C	Steve Wang	Male	2001.10.24	2,844	0.47	-	-	-	-	Bachelor Degree in Electronic Engineering, Chung Yuan Christian University Vice President of AU Optronics Corp.	Director of Novatek Affiliated	-	-	-
Vice President	R.O.C	Tommy Chen	Male	1997.7.1	6,195	1.02	69	0.01	-	-	Master Degree in Management of Technology, National Chiao Tung University Director of Commercial Product Business, UMC	Director of Novatek Affiliated	-	-	-
Vice President	R.O.C	J.D. Lai	Male	1997.7.1	4,663	0.77	1	0.00	-	-	Bachelor Degree in Electronic Engineering, Feng Chia University Director of Commercial Product Business, UMC	None	-	-	-
Vice President	R.O.C	Jeff Hsu	Male	2004.11.18	2,019	0.33	0.7	0.00	-	-	Bachelor Degree in Electronic Engineering, Chung Yuan Christian University Director of Sales and Marketing, UMC	None	-	-	-
Vice President	R.O.C	David Chen	Male	2010.6.24	927	0.15	360	0.06	-	-	Bachelor Degree in Electrical Engineering, National Tsing Hua University Director of Testing Div., Novatek	None	-	-	-
Vice President	R.O.C	Jang-San, Chen	Male	2014.4.23	324	0.05	-	-	-	-	Master Degree in Electronic Engineering, National Sun Yat-sen University Director of OA/TV Div., Novatek	None	-	-	-
Vice President	JAPAN	Nagayasu	Male	2014.4.23	116	0.02	0.9	0.00	-	-	Master Degree in Electronic Engineering, National Taiwan University Business marketing manager of AU Optronics Corp.	None	-	-	-
Vice President	R.O.C	Jason Huang	Male	2016.5.6	144	0.02	-	-	-	-	Bachelor Degree in Industrial Management, National Taiwan University of Science and Technology Sales Manager, UMC	Director of Novatek Affiliated	-	-	-
Assistant Vice President	R.O.C	Edward Tsai	Male	2016.5.6	388	0.06	0.8	0.00	-	-	Master Degree in Computer Science, National Tsing Hua University Assistant Manager of System Application, UMC	None	-	-	-
Assistant Vice President	R.O.C	Jimmy Su	Male	2018.4.1	34	0.01	0.1	0.00	-	-	Master Degree in Electronic Engineering, National Tsing Hua University Director of iHOME-TC Div., Novatek	None	-	-	-
Assistant Vice President	R.O.C	Jason Hsieh	Male	2020.5.4	4	0.00	-	-	-	-	Master Degree in Electronic Engineering, Chung Yuan Christian University Director of MD Div., Novatek	None	-	-	-
Assistant Vice President	R.O.C	Michael Cheng	Male	2021.4.1	5	0.00	-	-	-	-	Master Degree in Electronic Engineering, National Chiao Tung University Director of GPL Div., Novatek	None	-	-	-
Assistant Vice President	R.O.C	Daniel Ping	Male	2021.4.1	60	0.01	-	-	-	-	Doctoral Degree in Computer Science, National Chiao Tung University Director of VISG/iHOME Div., Novatek	None	-	-	-

Note 1: If there is any experience related to current position, such as previous employment by the auditing and attesting accounting firms or affiliated company during the aforementioned period, the job position and job duty should be specified: None.

Note 2: President (or someone with an equivalent job responsibility, i.e. the highest ranking manager of the company) and Chairman are not (1) the same person, (2) in a material relationship with each other, or (3) within one degree of consanguinity.

C. Remuneration for Directors, President and Vice Presidents

1. Directors' Remuneration

December 31, 2020; Unit: NT\$K, %

Title	Name	Director remuneration								A + B + C+D as percentage of net income after tax (Note 6)		Remuneration from concurrent position as employee								A + B + C + D + E+F+G as percentage of net income after tax (Note 6)		Remuneration received from re-investment business other than subsidiaries		
		Remuneration (A)		Pension (B) (Note 7)		Remuneration from profit distribution (C) (Note 2)		Business expenses (D) (Note 3)				Salaries, bonuses and special expenses (E) (Note 4)		Pension (F)		Profit distribution for employee compensation (G) (Note 5)								
		Novatek	Consolidated Entities	Novatek	Consolidated Entities	Novatek	Consolidated Entities	Novatek	Consolidated Entities			Novatek	Consolidated Entities	Novatek	Consolidated Entities	Novatek		Consolidated Entities						
										Cash	Stock					Cash	Stock							
Chairman and Officer	Tai-Shung, Ho	-	-	-	-	1,500	1,500	-	-	0.01	0.01	89,607	89,607	108	108	-	-	-	-	0.80	0.80	None		
Vice Chairman and President	Steve Wang	-	-	-	-	1,500	1,500	-	-	0.01	0.01					-	-	-	-				-	-
Director and Senior Vice President	J.H. Chang (Note 9)	-	-	-	-	1,500	1,500	-	-	0.01	0.01					-	-	-	-				-	-
Director	UMC (Note 1)	720	720	-	-	1,500	1,500	40	40	0.02	0.02	-	-	-	-	-	-	-	-	0.02	0.02	None		
Director	Max Wu	720	720	-	-	1,500	1,500	50	50	0.02	0.02	-	-	-	-	-	-	-	-	0.02	0.02	None		
Independent Director	Chen-en, Ko	960	960	-	-	1,500	1,500	50	50	0.02	0.02	-	-	-	-	-	-	-	-	0.02	0.02	None		
Independent Director	Max Fang	720	720	-	-	1,500	1,500	50	50	0.02	0.02	-	-	-	-	-	-	-	-	0.02	0.02	None		
Independent Director	Jack Tsai	840	840	-	-	1,500	1,500	50	50	0.02	0.02	-	-	-	-	-	-	-	-	0.02	0.02	None		

1. Independent Directors' remuneration policies, procedures, standards and structure, as well as the linkage to responsibilities, risks and time spent:

Independent Directors' remuneration includes the remuneration (A), the remuneration from profit distribution (C), and business expenses (D), taking into account the extent and value of the services provided for the management of the Corporation and the standards of the industry. Directors serve as convener of Remuneration Committee and Audit Committee have different remuneration. Business expenses refer to transportation expenses; which payment is based on times of attendance. According to Article 23-1 of the Company's Articles of Incorporation, no more than 0.4% of profit of the current year shall be distributed as remuneration to directors and shall be submitted to Remuneration Committee and Board of Directors for approval.

2. Other than disclosure in the above table, Directors remunerations earned by providing services (e.g. providing consulting services as a non-employee) to Novatek and all consolidated entities in the 2019 financial statements: None.

Note 1: Chi-Tung Liu is authorized by institutional director, UMC to attend the meetings of the current session of the Board of Directors; the remuneration (A) and business expenses (D) are entitled to person, while the remuneration from profit distribution (C) is entitled to UMC.

Note 2: Each director's remuneration has been approved by the Board of Directors.

Note 3: Refers to transportation expenses.

Note 4: Refers to remuneration received as an employee, including salary, work bonuses, severance pay, various awards, transportation expenses, special expenses, allowances, and living expenses. The Company cars for Chairman and Vice chairman totaled NT\$8,250 thousand as of Dec. 31, 2020 are not included.

Note 5: The employee compensation has been approved by the Board of Directors.

Note 6: The percentage was based on the 2020 parent company only net income after tax.

Note 7: Pensions funded according to applicable law.

Note 8: Directors did not receive any remuneration from affiliated companies.

Note 9: Director and Senior Vice President, J.H. Chang has retired on Apr. 1, 2021 and resigned from the company manager at the same time.

Remuneration Range

Remuneration Range	Name of Directors			
	Total remuneration (A+B+C+D)		Total remuneration (A+B+C+D+E+F+G)	
	Novatek	Consolidated Entities	Novatek	Consolidated Entities
Less than \$1,000,000				
\$1,000,000 (incl.) ~ \$2,000,000(excl.)	Tai-Shung, Ho Steve Wang J.H. Chang	Tai-Shung, Ho Steve Wang J.H. Chang		
\$2,000,000 (incl.) ~ \$3,500,000(excl.)	UMC (Note) Max Wu Chen-en, Ko Max Fang Jack Tsai	UMC (Note) Max Wu Chen-en, Ko Max Fang Jack Tsai	UMC (Note) Max Wu Chen-en, Ko Max Fang Jack Tsai	UMC (Note) Max Wu Chen-en, Ko Max Fang Jack Tsai
\$3,500,000 (incl.) ~ \$5,000,000(excl.)				
\$5,000,000 (incl.) ~ \$10,000,000(excl.)				
\$10,000,000 (incl.) ~ \$15,000,000(excl.)				
\$15,000,000 (incl.) ~ \$30,000,000(excl.)			Tai-Shung, Ho J.H. Chang	Tai-Shung, Ho J.H. Chang
\$30,000,000 (incl.) ~ \$50,000,000(excl.)			Steve Wang	Steve Wang
\$50,000,000 (incl.) ~ \$100,000,000(excl.)				
\$100,000,000 and above				
Total	8	8	8	8

Note: Chi-Tung Liu is authorized by institutional director, UMC to attend the meetings of the current session of the Board of Directors; the remuneration (A) and business expenses (D) are entitled to person, while the remuneration from profit distribution (C) is entitled to UMC.

2. President's and Vice Presidents' Remuneration

Dec 31, 2020; Unit: \$K, %

Title	Name	Salary (A) (Note 1)		Pension (B) (Note 2)		Bonuses and special expenses (C) (Note 3)		Employee compensation from profit distribution (D) (Note 4)				A + B + C+D as percentage of net income after tax (Note 5)		Remuneration received from re-investment business other than subsidiaries
		Novatek	Consolidated Entities	Novatek	Consolidated Entities	Novatek	Consolidated Entities	Novatek		Consolidated Entities		Novatek	Consolidated Entities	
								Cash	Stock	Cash	Stock			
Vice Chairman and President	Steve Wang	32,992	32,992	1,230	1,230	157,805	157,805	-	-	-	-	1.62	1.62	None
Director and Senior Vice President (Note 7)	J.H. Chang													None
Vice President	Tommy Chen													None
Vice President	J.D. Lai													None
Vice President	Jeff Hsu													None
Vice President	David Chen													None
Vice President	Jang- San, Chen													None
Vice President	Nagayasu													None
Vice President	Jason Huang													None
Assistant Vice President	Edward Tsai													None
Assistant Vice President	Jimmy Su													None
Assistant Vice President (Note 8)	Allen Lu													None
Assistant Vice President (Note 9)	Jason Hsieh													None

Note 1: Including salaries, work bonuses and severance pay.

Note 2: Pensions funded according to applicable law.

Note 3: Including awards, bonuses, transportation expenses, special expenses, allowances, living expenses, and other remuneration. The Company cars for Vice chairman and president totaled NT\$3,926 thousand as of Dec. 31, 2020 are not included.

Note 4: The employee compensation has been approved by the Board of Directors.

Note 5: The percentage was based on the 2020 parent company only net income after tax.

Note 6: President and Vice Presidents did not receive any remuneration from affiliated companies.

Note 7: Director and Senior Vice President, J.H. Chang has retired on Apr. 1, 2021 and resigned from the company manager at the same time.

Note 8: Assistant Vice President, Allen Lu has resigned on Apr. 10, 2020 and the remuneration was calculated as January, 2020 to Apr. 10, 2020.

Note 9: The remuneration of Assistant Vice President, Jason Hsieh was calculated as May, 2020 to Dec., 2020.

Remuneration Range

Remuneration Range	Name of Presidents and Vice Presidents	
	Novatek	Consolidated Entities
Less than \$1,000,000		
\$1,000,000 (incl.) ~ \$2,000,000 (excl.)	Allen Lu	Allen Lu
\$2,000,000 (incl.) ~ \$3,500,000 (excl.)		
\$3,500,000 (incl.) ~ \$5,000,000 (excl.)		
\$5,000,000 (incl.) ~ \$10,000,000 (excl.)	Jason Hsieh	Jason Hsieh
\$10,000,000 (incl.) ~ \$15,000,000 (excl.)	Tommy Chen, J.D. Lai Jeff Hsu, Edward Tsai Jang-San, Chen, Nagayasu Jason Huang, Jimmy Su	Tommy Chen, J.D. Lai Jeff Hsu, Edward Tsai Jang-San, Chen, Nagayasu Jason Huang, Jimmy Su
\$15,000,000 (incl.) ~ \$30,000,000 (excl.)	J.H. Chang, David Chen	J.H. Chang, David Chen
\$30,000,000 (incl.) ~ \$50,000,000 (excl.)	Steve Wang	Steve Wang
\$50,000,000 (incl.) ~ \$100,000,000 (excl.)		
\$100,000,000 and above		
Total	13	13

Employee Bonuses for Officers

December 31, 2020; Unit: \$K, %

Title	Name	Stock	Cash (Note 1)	Total	Percentage of net income after tax (Note 2)
Chairman and Officer	Tai-Shung, Ho	-	-	-	-
Vice Chairman and President	Steve Wang				
Director and Senior Vice President (Note 3)	J.H. Chang				
Vice President	Tommy Chen				
Vice President	J.D. Lai				
Vice President	Jeff Hsu				
Vice President	David Chen				
Vice President	Jang-San, Chen				
Vice President	Nagayasu				
Vice President	Jason Huang				
Assistant Vice President	Edward Tsai				
Assistant Vice President	Jimmy Su				
Assistant Vice President (Note 4)	Allen Lu				
Assistant Vice President	Jason Hsieh				
Finance Director	Sheng-Cheng, Chou				

Note 1: The employee compensation has been approved by the Board of Directors.

Note 2: The percentage was based on 2020 parent company only net income after tax.

Note 3: Director and Senior Vice President, J.H. Chang has retired on Apr. 1, 2021 and resigned from the company manager at the same time.

Note 4: Assistant Vice President, Allen Lu has resigned on Apr. 10, 2020.

3. Remuneration paid to each of its top five management personnel:

Inapplicable.

4. Comparative analysis of percentage of remuneration for Directors, Supervisors, President and Vice Presidents versus parent company only net profit after tax over the last two years, and explanation of remuneration strategies, standards, decision processes and relationship between strategy and performance.

- a. Remuneration paid to Directors, President and Vice Presidents are paid by the Company. No other remuneration was paid by its affiliated companies.
- b. Percentage of total remuneration paid to Directors, President and Vice President compared to parent company only net income after tax in 2020 and 2019.

Item	2020	2019
Directors' remuneration (including employee compensation as Officer)	0.90%	0.97%
President, Vice Presidents, Assistant Vice Presidents' remuneration	1.62%	1.71%

Note: The employee compensation has been approved by the Board of Directors.

- c. Directors' remuneration, including payments, operational implementation costs and compensations, requires the resolution made by the remuneration committee and the board of directors based on the level of participation and contribution of the directors given to the company operations and reference to similar positions in the same industry, where the remuneration is not allowed to exceed specific portion of the company profit by the company policy and requires the consent from the shareholders' meeting after the resolution of the remuneration committee and the board of directors.
- d. The remunerations of managers such as President and Vice President are determined based on "Company-Wide Salary Remuneration Rule" and the salary levels of the same job positions in the industry, which shall include fixed salary, performance bonus, employee remuneration, and other remunerations; performance bonus and employee remuneration will depend on the operation performance and the evaluation according to "Principles of Performance Evaluation and Salary Remuneration of Manager" and "Rules for Performance Target Assessment and Reward of Business Division". The evaluation indicators include job position, management performance, and annual performance target achievement rate of business division such as revenue, gross margin, net profit, and self-defined important indicators (project market share, new customers, new products, and incorporation of new technology). And the amount is calculated according to the comprehensive evaluations of annual profit, future risk, and development strategy before it can be submitted to Remuneration Committee and Board of Directors for approval.

D. Corporate Governance

1. Board of Directors Governance

The Board of Directors held meeting 4 times (A) in 2020. Attendance status of Directors is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) [B/A] (see note)	Remarks
Chairman	Tai-Shung, Ho	4	0	100%	-
Vice Chairman	Steve Wang	4	0	100%	-
Director	J.H. Chang	4	0	100%	-
Director	UMC, substitute attendance of the current session: Chi-Tung, Liu	4	0	100%	-
Director	Max Wu	4	0	100%	-
Independent Director	Chen-en, Ko	4	0	100%	-
Independent Director	Max Fang	4	0	100%	-
Independent Director	Jack Tsai	4	0	100%	-

Other disclosures:

1. (1) Securities and Exchange Act §14-3 resolutions:

Date	Meeting	Resolutions	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
2020.03.18	The 9 th meeting of the 8 th Board	1. The 2020 fixed pay and 2019 performance bonus of managers. 2. The 2019 internal control statement 3. Capital increase in subsidiary Cheertek International Inc. 4. Amendment to “Procedures of Endorsements & Guarantees” 5. Amendment to “Procedures of Loaning of Funds”	None
2020.04.24	The 10 th meeting of the 8 th Board	1. Capital increase in subsidiary Novatek International (BVI) Ltd. 2. The 2020 CPA’s audit fee 3. Amendment to internal control systems and internal audit implementation rules of “Financing Cycle”	
2020.11.04	The 12 th meeting of the 8 th Board	1. The 2021 “Internal Audit plan” 2. Capital increase in subsidiary Novatek International (BVI) Ltd. 3. Capital increase in subsidiary Cheertek International Inc. 4. Approved the announcement of no lending funds of Novatek to other parties in the third quarter of 2020	

Independent director's handling of the resolution results of major bills and the Company's handling of the opinions from its independent directors: The independent directors all showed approval of the major bills and the Company would report the execution status of the approved bills in the next meeting.

- (2) There were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2020.

2. Recusals of Directors due to conflicts of interests in 2020 are as follows:

Name	Agenda	Reason of recusals	Vote
Tai-Shung, Ho Steve Wang J.H. Chang	Deliberating on 2020 fixed pay and 2019 performance bonus of managers.	The managers of the Company.	Did not participated

3. Performance evaluation of the Board of Directors: refer to Note 2 "Execution situation for evaluation of board of directors"

4. Measures taken to strengthen the functionality of the Board:

The Company is dedicated to implementation of governance of board directors, perfection of supervisory function, enhancement of management performance of board of directors, and improvement of information transparency.

- (1) The Company attaches great importance to the diversification of the composition of the Board of Directors, and conducts training courses for the Directors every year to enhance their expertise. After passing the "Guidelines for Director Performance Evaluation" in 2019, the performance evaluation of the Board of Directors will be carried out every year. In 2020, the internal evaluation results of the Board of Directors, the Audit Committee, and the Remuneration Committee were "Excellent".
- (2) The Company has established the Audit Committee and the Remuneration Committee, both of which are composed of independent Directors, responsible for assisting the operation of the Board of Directors. In 2020, the attendance rate of the independent Directors was 100%.
- (3) The Company has formulated the "Principles of Corporate Governance", the "Corporate Social Responsibility Best Practice Principles", and the "Principles of Ethical Corporate Management", and continues to strengthen corporate governance in accordance with the corporate governance evaluation indicators set by the competent authority. In addition, Novatek continues to update corporate governance-related information on its official website in real time to enhance information transparency.

Note 1: Attendance rate= Number of meetings each board member actually attends / total number of board meetings held within his or her service period.

Note 2: Execution situation for evaluation of board of directors

Evaluation cycle	Evaluation period	Scope of evaluation	Evaluation approach	Content of evaluation
Annually	January 1st, 2020 to December 31st, 2020	Board of directors, Audit Committee, Remuneration Committee, Individual directors	Internal self-assessment for board of directors, internal self-assessment for audit committee, internal self-assessment for remuneration committee, and self-assessment for directors	<ol style="list-style-type: none"> 1. Performance evaluation for board of directors: participation in company operation, enhancement of decision making quality of board of directors, composition and structure of board of directors, selection and constant advanced training of directors, and internal control. 2. Performance evaluation for audit committee: participation in company operation, awareness of audit committee's responsibilities, enhancement of decision making quality of audit committee, composition and member selection of audit committee, and internal control. 3. Performance evaluation for remuneration committee: participation in company operation, awareness of remuneration committee's responsibilities, enhancement of decision making quality of remuneration committee, and composition and member selection of remuneration committee.

				4. Performance evaluation for individual director: understanding of company objectives and tasks, awareness of directors' responsibilities, participation in company operation, management and communication of internal relationship, professionalism and constant advanced training of directors, and internal control.
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2. Audit Committee Status or Supervisors' Meeting Status

a. Audit Committee Status:

The Audit Committee held meeting 4 times (A) in 2020. Attendance status of Independent Directors is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) [B/A] (see note)	Remarks
Independent Director	Chen-en, Ko	4	0	100%	-
Independent Director	Max Fang	4	0	100%	-
Independent Director	Jack Tsai	4	0	100%	-

Other disclosures:

1. (1) Securities and Exchange Act §14-5 resolutions

Date	Meeting	Resolutions	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
2020.03.18	The 9 th meeting of the 8 nd Committee	1. The 2019 financial statements 2. The 2019 internal control statement 3. Capital increase in subsidiary Cheertek International Inc. 4. Amendment to "Procedures of Endorsements & Guarantees" 5. Amendment to "Procedures of Loaning of Funds"	None
2020.04.24	The 10 th meeting of the 8 rd Committee	1. Capital increase in subsidiary Novatek International (BVI) Ltd. 2. The 2020 CPA's audit fee 3. Amendment to internal control systems and internal audit implementation rules of "Financing Cycle"	
2020.11.04	The 12 th meeting of the 8 rd Committee	1. The 2021 "Internal Audit plan" 2. Capital increase in subsidiary Novatek International (BVI) Ltd. 3. Capital increase in subsidiary Cheertek International Inc. 4. Approved the announcement of no lending funds to other parties in the third quarter of 2020	

Audit committee's handling of the resolution results of major bills and the Company's handling of the opinions from its audit committee: The audit committee all showed approval of the major bills and the Company would report the execution status of the approved bills in the next meeting.

(2) There was no resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2020.

2. Recusals of independent directors due to conflicts of interests in 2020: None

3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors (e.g. the channels, items and/or results of the audits on the corporate finance and/or operations, etc.):

The internal audit supervisor should provide audit committee with monthly audit report and attend all meetings in 2020 to report the execution condition of internal control; if it is deemed as necessary by any audit committee member regarding the financial affairs or meeting subject, the Company shall arrange relevant responsible departments and personnel to report during such meeting; the certified public accountant attended three audit committee meetings in 2020 to report financial statements, major issues of internal control, and latest law amendment. Audit committee members could contact the certified public accountant at all times via phone or email, thus demonstrating proper communication. For the communications among independent directors, audit supervisor, and the certified public accountant, please refer to the Company website.

4. Focuses of annual works and operations:

(1) Audit committee operates according to the audit committee organizational charter of the company, and the focuses of annual audit works include:

- a. Financial statement
- b. Amendment of internal control system and execution of internal audit
- c. Appointment, termination, remuneration and independence assessment of certified public accountant
- d. Major assets, derivative commodities, capital loans and endorsement guaranteed transactions
- e. Matters related to directors' own interests
- f. Major matters stipulated by competent authority

(2) In 2020, the attendance rate of the audit committee members was 100%, and all propositions were reviewed and passed without any objection. There was proper communication between internal auditor and certified public accountant.

b. Attendance status of Supervisors is as follows:

The functionality of Supervisors has been replaced by Audit Committee in 2012.

3. Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons:

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	V		The Group established its corporate governance principles after taking into consideration the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies,” with a dedicated “Corporate Governance” section established on our company website to all investors, allowing them to inquire about and download our corporate governance regulations.	None.
2. Shareholding Structure & Shareholders’ Rights				
(1) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?	V		The Group established shareholder meeting regulations, with investor relations and investors service personnel responsible for both handling issues such as shareholder proposals or disputes, and reporting to the Board of Directors in a timely manner.	None.
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		Novatek reports on the stockholding situation to directors, managers and shareholders who hold more than 10% share on a monthly basis, as per regulations. Novatek is the major shareholder of related businesses within the Group.	None.
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	V		Businesses dealings among the related internal companies within the Group are all managed according to internal control systems and related statutes, in order to prevent any abnormal business.	None.
(4) Does the company establish internal rules against insiders trading with undisclosed information?	V		The Group’s internal controls include managing safeguards against insider trading, including confidentiality procedures for major internal news that may influence share price prior to public disclosure, and measures and standards for buying and selling of negotiable securities.	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
3. Composition and Responsibilities of the Board of Directors				
(1) Does the Board develop and implement a diversified policy for the composition of its members?	V		The Company has stipulated director nomination and selection policy to implement the diversity of board directors. Novatek currently has eight board members including three internal directors, two external directors and three independent directors coming from the academic and technological sectors and equipped with expert knowledge, technics and quality of varying fields. They have broad knowledge and experience to effectively reinforce the operation of the board of directors. As for the diversity of backgrounds of individual directors and the implementation of management objectives, please refer to Note 1.	None.
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?		V	With a Compensation Committee and an Audit Committee to assist the Board of Directors in executing its duties, Novatek has not established any other type of function committee.	Appraisal necessary according to laws, regulations and Board of Directors operations.
(3) Does the company establish a standard to measure the performance of the Board, on an annual basis, reported the results of performance to the Board of Directors, and use the results as reference for directors’ remuneration and renewal?	V		The “Rules for Board of Directors’ Performance Evaluation” was passed by the board meeting in October, 2019, based on which the performance evaluation of board of directors, functional committee, and individual director were executed once per year, and the performance evaluation by external professional independent institution was executed once every three years. The evaluation results were reported during the board meeting of Q1 to serve as the reference for remuneration and nomination for re-election of individual director. All relevant information was disclosed on the Company website.	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(4) Does the company regularly evaluate the independence of CPAs?	V		According to Best Practice Principles of Corporate Governance, the Company has conducted independence evaluation for certified public accountant once per year, and the evaluation items include the confirmation of that there is no relative relationship with the Company’s senior executives, there is no capital loan or non-public money exchange with the Company, and the same certified public accountant has not been executing attestation service for more than 7 years. And the independence statement of certified public accountant must be acquired.	None.
4. Does the company appoint competent and appropriate corporate governance personnel and corporate governance officer to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors, assisting directors’ compliance of law, handling matters related to board meetings and shareholders’ meetings according to law, and recording minutes of boarding meetings and shareholders’ meetings)?	V		<p>Based on the resolution passed by the board meeting of the Company on July 26, 2019, the Director of Finance Department Shen-Cheng, Chou was appointed as the governing supervisor of the Company, and two to three employees serving as governing personnel were assigned to be in charge of arranging board meetings and shareholders meetings, providing data required by directors to carry out the business, and assisting directors in constant advanced educations.</p> <p>In 2020, Novatek has completed the three-hour courses of “Analysis and Decision-making Application of Corporate Financial Information” and “Principles and Applications of Artificial Intelligence” organized by the Securities and Futures Institute, and the three-hour courses of “Corporate Risks Management and Internal Control” and "Corporate Fraud Identification and Prevention" organized by the Taiwan Corporate Governance Association, reaching the total number of training hours in the year to 12 hours.</p> <p>The business promotion situations in 2020 mainly included provision of meeting agenda and data of board meeting 7 days ahead and meeting minutes 20 days after the board meeting according to the Rules of Procedure of Board Meeting, compositions of notice, meeting procedure, and meeting minutes of shareholders meeting in accordance</p>	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			with statutory schedule, delegating Taiwan Corporate Governance Association to arrange the 6-credit “Home Tutoring” advanced course for directors, assisting auditors and certified public accountants to communicate with independent directors regarding audit matters, major financial issues, and amendment and development of latest laws and regulations, and annual company governance operation and execution conditions to be reported in the board meeting.	
5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employee and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		<p>The Group has already set up an interested party area on its corporate website for customers, suppliers, investors and employees, provided e-mail addresses and specific contact channels for various kinds of related parties to put forth their questions. The questions will be promptly responded to by respective business responsible persons, so good communication channels can be maintained.</p> <p>The corporate social responsibility report listing the issues concerned by a variety of interested parties and communication methods in detail is available on the Company’s website.</p>	None.
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		Novatek utilizes a transfer agent organization, Horizon Securities, to assist in handling shareholders’ affairs. Related institutes within the Group are 100% owned by Novatek, so there is no need to employ an outside transfer agent organization.	None.
7. Information Disclosure				
(1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	V		The Group established website (www.novatek.com.tw) and discloses financial activities, corporate governance and major relevant information on the Group’s subsidiaries.	None.
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure,	V		The Group’s website includes information in Chinese and English, and we have appointed personnel to be in charge of collecting and disclosing company information. Furthermore, there is an acting spokesperson system via a general spokesperson plan. The Group’s	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>creating a spokesman system, webcasting investor conferences)?</p> <p>(3) Does the company announce and report the annual financial statements within two months after the end of fiscal year, and announce and report the first, second, and third quarter financial statements as well as the operation status of each month before the prescribed deadline?</p>		V	<p>major information is published on the website or disclosed to public information observation websites.</p> <p>Novatek has announced and reported the first, second, and third quarter financial statements as well as the operation status of each month before the prescribed deadline in 2020. 2019 annual financial statements were announced and reported in mid to late March, 2020 following the business operation.</p>	Appraisal necessary according to laws, regulations, and company business operations
<p>8. 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)?</p>	V		<p>The Group adheres to every aspect of the law, values labor relations, provides employment opportunities, expands exports, and strives towards fulfilling our social responsibility. For information on employee rights or employee wellness, please refer to the chapter V. in this year’s annual report.</p> <p>The Group requires all parties within the Group to abide by work principles and resolutely avoid conflicts of interest.</p> <p>Novatek directors all pursue further education based on the needs of their work and the training records were disclosed to public information observation websites.</p> <p>Novatek has purchased liability insurance for its directors and reported on the board meeting.</p> <p>The general manager office takes the charge of the Group’s risk management integration, instructs each unit which is responsible for the implementation of risk evaluation, arranges insurance for the Company property, and reports to the board of directors if there is any special situation. All the management is fulfilled well and in order.</p> <p>The free flow of communication between the Group and its clients is</p>	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			excellent. For more information on other employee rights or supplier relations, please refer to the related chapters in this year’s annual report.	
9. Please describe the status of the improvement and the improving items of first priority and measures on non-improving items according to the result of cooperate governance evaluation announced by cooperate governance center of TWSE.			To strengthen the corporate governance, Novatek has continued to make improvement according to the results of the corporate governance evaluation. In 2020, a training course on integrity management for all employees was conducted, and the specific implementation status was disclosed on the official website of Novatek. In addition, an intellectual property management plan was formulated and reported to the Board of Directors. Starting from 2021, information transparency will be strengthened, and the annual financial report is scheduled to be announced and uploaded before the end of February. The announcement of the quarterly financial report will be completed next day after the Board of Directors meeting. In coordination with the re-election of the Directors, one female Director will be added.	

Note 1: Article 2-1 of the Director Election Regulations: For its director election, the Company shall take the overall deployment of its board of directors into account, of which the board members shall be equipped with the knowledge, technics and quality required for execution of their duties. As a whole, the board members are required to be equipped with the following capacities: (1) business operating judgment; (2) accounting and financial analysis capacity; (3) operating and management capacity; (4) crisis management capacity; (5) industrial knowledge; (6) global horizons; (7) leadership; (8) decision making capacity.

The number of the directors with the spouse-ship or kinship within second degree with other directors shall not be over half of the entire body of directors.

For implementing the diversity of directors and considering the Company’s business model and development needs, the objective policies are determined, including (1) keeping the balance of composition of internal, external, and independent directors, (2) the term of independent director shall not exceed 9 years, and (3) diversity of expertise and backgrounds of directors

Implementation of diversity of directors of the Company:

- (1) Among the 8 directors of Novatek, there are 3 directors who are employees of Novatek, 2 external directors, and 3 independent directors; independent directors account for 37.5% of total directors.
- (2) Tenure of independent director: this term was started from June, 2012, so it is less than 9 years.
- (3) Industrial experience/expertise: 1 from academic sector, 7 from different industrial sectors, including semiconductor (UMC), PC (Acer, Dell), and IC and Display (AUO, Trident Microsystems).

Name \ Capacities	Gender	Business operating judgment	Accounting and financial analysis capacity	Operating and management capacity	Crisis management capacity	Industrial knowledge	Global horizons	Leadership	Decision making capacity
Tai-Shung, Ho	Male	v	v	v	v	v	v	v	v
Steve Wang	Male	v	v	v	v	v	v	v	v
J.H. Chang	Male	v	v	v	v	v	v	v	v
UMC, substitute attendance of the current session: Chi-Tung, Liu	Male	v	v	v	v	v	v	v	v
Max Wu	Male	v	v	v	v	v	v	v	v
Chen-en, Ko	Male	v	v	v	v	v	v	v	v
Max Fang	Male	v	v	v	v	v	v	v	v
Jack Tsai	Male	v	v	v	v	v	v	v	v

4. Status of compensation committee :

Novatek has established the compensation committee on December 7, 2011, and the members were re-appointed on June 8, 2018. The meeting will be convened at least twice a year, and the job duties are to assisting the board of directors in amendment and evaluation of employee remuneration system of the entire company, regular review of performance evaluation and salary remuneration principles of managers, and regular evaluation of salary remuneration of directors and managers.

When the remuneration committee performs its duties, the evaluation will be conducted according to the following principles: remuneration policy of the entire company staff, salary level of the same job position in the industry, individual participation in operation and contribution of director and manager, overall operation performance of the Company, is there any incentive for any director or manager to go beyond the risk of company for pursuing salary remuneration, determination of changing salary payment time due to consideration of the Company's business nature, and the adoption of interest avoidance principles for individual salary remuneration of director or manager.

Professional Background and Independence of the Compensation Committee members

Professional Background and Independence of the Compensation Committee Members																	
Title	Name	Criteria			Possess five or more years of experience and the following professional qualifications	Independence Status (Note)										Number of other public companies concurrently serving as an independent director	Remarks
		Lecturer or above of business, law, finance, accounting or other subject related to company activity in a junior college or above	Specialist passing national exams with certification in business, law, finance, accounting or other subject related to company activity	Work experience in business, law, finance, accounting or other subject related to company activity	1	2	3	4	5	6	7	8	9	10			
Independent Director	Chen-en, Ko	v			v	v	v	v	v	v	v	v	v	v	v	4	
Independent Director	Max Fang				v	v	v	v	v	v	v	v	v	v	v	0	
Independent Director	Jack Tsai				v	v	v	v	v	v	v	v	v	v	v	0	

Note: "v" indicates the conditions listed met during the member's terms and two years prior.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a director or supervisor of the company or any of its affiliates.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, more than 1% of the company's outstanding shares, nor one of the company's top ten natural-person shareholders.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the officer in the preceding 1 subparagraph, or of any of the above persons in the preceding subparagraphs 2 and 3.
- (5) Not a director, supervisor, or employee of a corporate/ institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) serving on the company's board based on Article 27 of the Company Law.
- (6) Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company.
- (7) Not a director, supervisor, or employee of a company of which the chairman or CEO (or equivalent) themselves or their spouse also serve as the same company's chairman or CEO (or equivalent).
- (8) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company.

- (9) Other than serving as a compensation committee member of the company, not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, and the service provided is an “audit service” or a “non-audit service which total compensation within the recent two years exceeds NTD500,000”.
- (10) Not under any condition pursuant to Article 30 of the ROC Company Law.

Compensation Committee status

1. There are three members of the Compensation Committee.
2. The members’ tenures are from June 21, 2018 to June 7, 2021. The Compensation Committee held meeting 2 times (A) in 2020. Attendance statuses of Independent Directors are as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) [B/A] (see note)	Remarks
Convener	Jack Tsai	2	0	100%	-
Member	Chen-en, Ko	2	0	100%	-
Member	Max Fang	2	0	100%	-

Other disclosures:

1. There was no recommendation of the Compensation Committee which was not adopted or modified by the Board of Directors in 2020.

2. There was no written or otherwise recorded resolution on which a member of the Compensation Committee had a dissenting opinion or qualified opinion in 2020.

3. Resolutions, results, and opinions in 2020:

Date	Meeting	Resolutions	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
2020.03.18	The 4 nd meeting of the 4 th Committee	1. The 2019 employees’ compensation and remuneration to directors 2. The 2019 remuneration to individual directors 3. The 2020 fixed pay and 2019 performance bonus of managers.	None
2020.07.31	The 5 rd meeting of the 4 th Committee	3. The 2020 fixed pay of new managers.	

5. Social Responsibility Implementation Status and Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons:

Holding the spirit of civic society, the Group has established Novatek Educational Foundation. The foundation is to promote human development and scientific education, to assist the development of fundamental education, and to encourage the nurture of high-level educated person. Our employees are as well devoted themselves not only to actively participate in volunteer activities but also through our internal groups, such as "NVT Love Club" to engage in social welfare and charitable activities, by which to fulfill social responsibility of citizens and of corporate social citizenship.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
1. Does the company follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to company operation, and establish risk management related policy or strategy?	V		The Group has followed materiality principle to conduct risk assessment for environmental, social and corporate governance topics, and establish risk management related policy or strategy. Please refer to the supplementary explanation of “7. Other important information to facilitate better understanding of the company’s corporate social responsibility practices”.	None.
2. Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	V		The Group has set up a “Novatek Corporate Social Responsibility Committee,” with the Vice President and Company Spokesperson appointed by the chairman to serve as directing members, below whom there are the five working groups of Operational Governance, Social Feedback, Environmental Sustainability, and Employee Care and Partnership. The committee is tasked with drawing up corporate sustainable development goals, integrating relevant departmental resources, and submitting annual implementation results and plans to the Board of Directors for the current and following year respectively. The 2020 CSR implementation results and the 2021 implementation plans are detailed in the supplementary explanation of “7. Other important information to facilitate better understanding of the company’s corporate social responsibility practices” and were reported to the Board of Directors in Q1 2021.	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
3. Environmental topic				
(1) Has the company set an environmental management system designed to industry characteristics?	V		Novatek has already adopted ISO 14001 environmental management systems, ISO 45001 occupational health and safety management systems, and the Taiwan Occupational Safety and Health Management System. The Group’s subsidiaries also comply with local government environmental management standards.	None.
(2) Is the company committed to improving resource efficiency and to the use of renewable materials with low environmental impacts?	V		The Group strives for perpetual operations and development. It takes environmental pollution and safety and health risks very seriously, with internal environmental health and safety policies complying with all relevant laws and regulations. The Group has also established management procedures for waste gas, waste water and waste products, effectively cleaning disposed materials with the goal of increasing the utilization of resource cycles.	None.
(3) Does the company evaluate current and future climate change potential risks and opportunities and take measures related to climate related topics?	V		In order to reduce the impact of the Company’s operational activities on the environment, the Company has been dedicated to providing our customers with high performance green products while implementing reduction of resources and energy consumption during daily operation, and regularly conducting greenhouse gas inventory by referring to the statistics of water consumption and total amount of waste in order to reduce the risk of climate change.	None.
(4) Does the company collect data for greenhouse gas emissions, water usage and waste quantity in the past two years, and set energy conservation, greenhouse gas emissions reduction, water usage reduction and other waste management policies?	V		The Company has been regularly calculating greenhouse gas emission, water consumption, and total weight of waste every year, and devoted to continuous energy saving and carbon reduction strategy. In 2020, the replacement of the RF cooling tower control system for the Technology Building, the management plan for improving the inverter control panel, and the management plan for adding the RF air conditioning cooling water tower for the Technology Building were completed. Old equipment was	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
			replaced to improve the efficiency of the cooling water tower as well as the water chiller, reducing the loading, improving the efficiency and lowering the energy consumption of the air conditioning system. The management plan for improving the energy efficiency of lighting for the 9F and 7F offices in Tainan was completed; inefficient and energy-consuming traditional lighting fixtures were replaced by energy-saving LED lamps to reduce power consumption. The management plan for improving the B2F high-voltage substation for the Technology Building and the management plan for replacing the TR2 transformer for the Technology Building were completed. Old and inefficient power equipment was replaced to improve power factor, minimizing power loss and reducing the emission of greenhouse gases. For all relevant information please refer to Section 4.3 Reduction of Energy Consumption and Greenhouse Gas of the Corporate Social Responsibility Report.	
4. Social topic				
(1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		The Group follows the Labor Standards Act and other laws and regulations, as well as the spirit of the International Convention on Human Rights and those of other relevant practices, to implement all related operations and activities. The Group values labor rights, and implements human resources that does not discriminate based on gender, race, age, marriage status or family situation, and has established employee suggestion boxes and provides complete employee benefits.	None.
(2) 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?	V		The Group’s Remuneration Committee has formulated an overall, Company-wide remuneration policy. This remuneration policy includes monthly fixed salaries and annual bonuses. The Board of Directors provides a certain percentage of profits as employee bonuses in accordance with Company performance. Article 23, Clause 2, of the Articles of Association also states that if the Company makes a profit for	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?		V	<p>the year, it shall allocate no less than 1 percent of such profits as remuneration for employees to ensure the rationalization of salary and remuneration, and to implement the performance appraisal system and link up with the results of the Company’s operational objectives. In addition to the salary, Novatek also provides employees with comprehensive and diversified welfare measures, including annual leaves better than statutorily required, travel subsidies, and regular themed outdoor activities. For all relevant information please refer to Annual Report V. Operational Highlights – E. Labor-Management Relations 1. b. Employee Relationship & Corporate Social Responsibility Report 5.3 Salary and Welfare.</p> <p>The Group values the protection of both the environment and labor safety, and successfully achieved LRQA certification. In 2020, fire safety training for employees, occupational safety and health training for new employees, occupational safety and health training for supervisors, AEO emergency response education and training, on-the-job training for fire-fighting management personnel, training for energy management personnel, and training for waste handling technicians were completed. For all relevant information please refer to Annual Report V. Operational Highlights – E. Labor-Management Relations 1. e. Working environment and protection of employee safety.</p> <p>For employee relations, the health management of employees was promoted; practical and diversified health promoting seminars/activities were planned and implemented, including annual health checkups as well as health management classification and anomaly follow-up, maternal labor health protection management, abnormal workload-induced disease prevention management, the project of "Health Trilogy for People Suffering from Ingestion", seminars on "Solution for People Suffering from Ingestion, Health Tips ~ Say Goodbye to Skinny Fat, Nutritious and</p>	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(4) Does the company provide its employees with career development and training sessions?	V		<p>Delicious Salad-in-a-jar DIY", influenza vaccination injection activity, blood donation activity, on-site doctor/counseling psychologist to provide monthly consultation services, and theme-based medical column, to protect the health of employees.</p> <p>The Group places great importance on employee training and development, providing necessary general, management, specialized and quality management education and training for those in various positions, specialties and levels. We also provide advancement opportunities and environments for the further development of outstanding personnel, helping our employees and our group to grow together. For all relevant information please refer to Corporate Social Responsibility Report 5.4 Talent Cultivation, Management, and Development.</p>	None.
(5) Does the company’s product and service comply with related regulations and international rules for customers’ health and safety, privacy, sales, labelling and set policies to protect consumers’ rights and consumer appeal procedures?	V		<p>The Group is an IC design house with customization manufacturing for customers. Dedicated service teams are established for different product lines. “Customer Application Service Operating Procedure” has been established. There have been regular review and evaluation of customer satisfaction, based on which the corresponding improvement plans have been proposed. There has been email address listed on the Company website to serve as a good appeal and communication channel for our customers. For all relevant information please refer to Corporate Social Responsibility Report 3.3 Customer Service.</p>	None.
(6) Does the company set supplier management policy and request supplier to comply with related standards on the topics of environmental, occupational safety and health or labor right, and their implementation status?	V		<p>Novatek always strictly audit the qualifications of its suppliers. All suppliers must be qualified by the new supplier evaluation mechanism, including audits and evaluations of quality system, quality process, hazardous substance free management, and compliance with relevant environmental standards. In addition, to ensure the fulfillment of corporate social responsibility by our supplier, Novatek will constantly advocate corporate social responsibility policies to its suppliers while conducting</p>	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
			hazardous substance audit and risk management of conflict minerals survey. For all relevant information please refer to Corporate Social Responsibility Report 3.2 Supplier Chain Management & 4.2 Green Products.	
5. 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 3 rd certification party verification or statement of assurance?	V		The Company has carried out the composition and disclosure of report according to the Core of GRI Standards published by Global Sustainability Standards Board, and delegated the verification to independent and credible British Standard Institution (bsi) according to AA1000 AS (2008) Type 1 Moderate Guarantee Level and the core of GRI Standards to strengthen the correctness and credibility.	None.
6. 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 Group has formulated the Code of Practice for Corporate Social Responsibility. Operations are subject to and in high degree of compliance with the Code. For details, please refer to the Company's official website at www.novatek.com.tw .				
7. Other important information to facilitate better understanding of the company’s corporate social responsibility practices: (1) Risk management policies or strategies of important issues of corporate social responsibility are as shown below:				
	Major issues	Risk assessment items	Risk management policies or strategies	
	Environment	Environmental safety and health and reduction of energy consumption and greenhouse gas	With the formulation of environmental safety and health policies, all business activities of the Company affecting environment and safety and health must be in compliance with regulatory requirements, and the negative impacts on environmental safety and health should be reduced as much as possible while setting the goal of increasing of resources recycling and reuse.	
	Society	Green products	The Company has established the green product management system according to international environmental protection laws and regulations and customer needs, and requested suppliers to be in compliance with “Novatek Hazardous Substances Management Rules” via supply chain hazardous substance management. The effective operation of hazardous substances management system can be ensured via regular review operations.	

Evaluation Item		Implementation Status		Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
		Yes	No	
Company governance	Implementation of compliance with various laws and regulations			Improvement of management of integrity-based operation, focuses on changes of policies and laws and regulations, and implementation of internal control mechanism.
(2) The 2020 CSR implementation results and the 2021 implementation plans:				
Task force	2020 implementation results		2021 implementation plan	
Corporate governance	1. Corporate governance evaluation performance: maintained in the top 6-20% of listed companies. 2. Attendance rate of Board of Directors: 100% 3. The completion rate of the annual integrity management promotion course: 100% of all employee.		1. Corporate governance evaluation performance: rank in the top 20% of listed companies. 2. Attendance rate of Board of Directors and functional committees: not less than 90%. 3. The completion rate of the annual integrity management promotion course: reaching 99.5%. 4. Financial report announced next day after its approval by the Board of Directors to improve information transparency.	
Joint force of partnership	1. RBA self-assessment questionnaire and supply chain risk assessment were established. 2. Customer satisfaction reached 93% 3. On-site audit rate of suppliers reached 74% 4. Sustainability management processes of suppliers were improved.		1. Customer satisfaction reaches 90%, and the completion rate for key suppliers reaches 85%. 2. Improve the sustainability management processes for suppliers: 1) Formulate the “Novatek Code of Conduct for Suppliers”, 2) 70% of key suppliers complete the RBA self-assessment questionnaire. 3. Organize the sustainable management supply chain exchange forum.	
Environmental sustainability	1. 100% of key suppliers obtained ISO 14001 environmental management system. 2. The improved indoor CO ₂ concentration in the 4F of Technology Building was about 900 ppm (by 30%), which meets the requirements of the Environmental Protection Administration. 3. Annual electricity consumption per capita is 1090 kWh.		1. Complete the evaluation of the Plan for the Use of Renewable Energy, start using renewable energy in 2022, and increase the percentage of renewable energy use year by year. 2. Promotion of energy-saving plans-greenhouse gas reduction.	

Evaluation Item			Implementation Status		Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
			Yes	No	
Friendly working environment	1. In the 2020 CHR Corporate Health Responsibility Award, Novatek was selected as the “Outstanding Company in CHR Epidemic Prevention Response in Taiwan”. 2. In 2019, the average salary of “full-time non-supervisor employees” reached NT\$ 2.713 million (an annual growth of 7%), and the median salary was NT\$ 2.398 million, which was the highest in the semiconductor industry. 3. The turnover rate of full-time employees in 2020 was 5.83%, which is considered to be healthy in the industry. 4. The Deep Bench cadre training was conducted again, providing 49 hours of training to 36 participants. 5. The number of employees who use the travel subsidies to participate in tours independently (with their family members) accounted for 68.27% of the total number of employees in the company.			1. Plan ESG management training courses for the CSR committee and related management. 2. With reference to international human rights conventions, compile Novatek’s human rights protection policies as well as specific human rights policy management plans, and disclose them on the company’s website or in the company’s annual report. 3. Establish a monitoring, caring and prevention mechanism for employees’ abnormal working hours.	
Social care	1. Awarded by the Youth Development Administration, Ministry of Education the “2020 Outstanding Organization for Promoting Youth Volunteer Services” for three consecutive years. 2. The “Novatek Social Caring Fund” raised NT\$ 9.16 million, and 41.3% of all employees contributed to the donation. 3. Awarded 45 outstanding Ph.D. and master students with scholarships that amounted to more than NT\$ 4.9 million. 4. Supported archery and weightlifting sports talents with sponsorships of more than NT\$ 2.5 million.			1. Expand the Novatek Foundation’s social influence through social media operation and public sector participation. 2. Organize 16 corporate volunteer services in a year. 3. Promote the technological talent cultivation rewarding program to provide rewards that exceed NT\$ 4 million. 4. Continue to sponsor various outstanding sports talents and sports teams such as archery and weightlifting. 5. Continue to raise money for the Novatek Social Caring Fund, and maintain the total donation to ≥ NT\$ 9 million and the percentage of employees making the donation to ≥ 40%.	

(3) For the purposes of promoting science education development, cultivation of outstanding talents, and supporting the education for disadvantages students in remote villages, the Group founded the Novatek Science Education Foundation and set up scholarship for continuous awarding and cultivation of outstanding talents of science education in Taiwan; meanwhile, we have responded to the adoption of Nightlight Angel after-school tutoring program of Ministry of Education to help disadvantaged students in remote villages. In addition, we have been constantly promoting reading programs and reading promotional activities such as creative reading, outdoor teaching, and summer story-telling camps for disadvantaged students in remote villages in Hualien County and

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
Yunlin County, so that we can explore the fun in learning, inspire creativity, and develop future competitiveness for these disadvantaged students in remote villages via diversified learning. The Foundation has provided long-term sponsorship to the Fuli Archery Team, which has demonstrated outstanding performance in international competitions over the years. In addition, the Foundation continues to sponsor the training of the Weightlifting Team of the National Erhlin Industrial and Commercial Vocational High School, which won the women’s 81 kg Gold Medal at the 2020 Asian Youth and Junior Weightlifting Championships in Uzbekistan, and the 89 kg Silver Medal at the 2020 IWF Online Youth World Cup, cultivating many outstanding sports talents and winning honor for Taiwan. In addition to the above-mentioned sponsorship programs, the Novatek Foundation has been committed to volunteering services for disadvantaged students for quite a long time. Novatek volunteers have conducted the one-on-one countryside walking tours and food ingredient explorations with students from the Taichung School for the Visually Impaired. Moreover, cares were being provided by the Novatek volunteers to disadvantaged children of the Hsinchu Renai Children’s Home as well as the Night Angel Illumination Programs in Hsinchu and Miaoli County, carrying out humanities related education and activities. Furthermore, Novatek continues to offer volunteer services and cares to “disadvantaged teenagers”, including the disadvantaged teenagers from the Taichung Tsu-Hsin Children’s Home and the Taoyuan Reindeer Children's Home, helping them to gain experience in career exploration. A total of 13 volunteer services were offered in 2020. The Novatek Foundation has been committed to the promotion of long-term corporate volunteer services, and was awarded by the Youth Development Administration, Ministry of Education the “2020 Outstanding Organization for Promoting Youth Volunteer Services” for three consecutive years. It is hoped that with the power of corporate volunteers, Novatek can make contributions to the society through its actions, attracting the attention of the communities to the education for disadvantaged students.				

6. The Ethical Corporate Management Implementation Status and Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons:

Trustworthiness is one of the Group’s mottos while all employees are asked to obey and follow. A routine introduction of the Group’s business culture and ethics will be addressed by the president at the freshman orientation periodically. In the meantime, in-house seminars and presentations focusing on the business culture and ethics are often conducted from time to time as a reminding for the whole staff. The Group’s business activities and operations are well executed and based on ROC Company Act, Securities and Exchange Act, and local regulations of the affiliated companies while the management and board members are requested to comply with laws, ordinances and the articles of incorporation and shall exercise the duty of a good manager to faithfully engage in their duties, to stay with good understanding of the Group’s financial status with good communication with the accounting firms, while taking into consideration the interests of the Group.

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management policies and programs				
(1) Does the company have a clear ethical corporate management policy approved by its Board of Directors, and bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and commitment regarding implementation of such policy from the Board of Directors and the top management team?	V		The board of directors of the Company has stipulated the integrity-based policies, and established the sound company governance and risk control mechanism via the formulation of “Principles of Ethical Corporate Management” for directors, management team, and all employees to comply with. And the annual corporate integrity management execution situations will be reported to the board of directors once a year.	None
(2) Whether the company has established an assessment mechanism for the risk of unethical conduct; regularly analyze and evaluates within a business context, the business activities with a higher risk of unethical conduct; has formulated a program to prevent	V		The Group has previously revised and augmented its “Procedures for Ethical Management and Guidelines for Conduct” according to the “Principles of Ethical Corporate Management” to specifically define the business activities with higher risk of dishonest behavior within the scope of business. And there have been specific preventive measures and reporting and processing procedures established with	None

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>unethical conduct with a scope no less than the activities prescribed in paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?</p> <p>(3) Whether the company has established relevant policies that are duly enforced to prevent unethical conduct, provided implementation procedures, guidelines, consequences of violation and compliant procedures, and periodically reviews and revises such policies?</p>	V		<p>respect to bribing and receiving bribes, providing illegal political contributions, improper charitable donations, and providing or accepting improper benefits.</p> <p>For the purpose of eliminating and preventing the dishonest behaviors, the Group has implemented the “Ethical Operational Procedures and Conduct Guidelines Procedures for Ethical Management and Guidelines for Conduct”, “Procedures of Handling Material Inside Information”, and “Guidelines for Handling Grievance and Whistle-blowing”, organized the course of “Advocacy of Integrity Management Behaviors” once a year, and the advocacy of relevant information once every six months in order to strength the corporate ethnic awareness.</p>	None
2. Fulfill operations integrity policy				
<p>(1) Does the company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?</p> <p>(2) Whether the company has set up a unit which is dedicated to promoting the company’s ethical standards and regularly (at least once a year) reports directly to the Board of Directors on its ethical corporate management policy and relevant matters, and program to prevent unethical conduct and monitor its implementation?</p>	V	V	<p>The Group follows set deliberate procedures in implementing ethics and assessment work when dealing with suppliers and customers, and adheres to the principles of ethics and fairness to carefully select business partners.</p> <p>In order to achieve sound ethical management, the Intellectual Property and Legal Division and Human Resources Division are responsible for the monitoring and implementation of ethical management policies and prevention programs. It will regularly report to the President and report the execution situation to the board of directors once a year.</p>	<p>None</p> <p>None</p>

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		A major principle of this group is the forbidding of any situation in which company resources or benefits could possibly be given to an employee’s relative or friend. The Group has been established a suggestion box and the informing mechanism of internal and external violation of integrity management to provide full communication channels on this subject.	None
(4) To implement relevant policies on ethical conducts, has the company established effective accounting and internal control systems, audit plan based on the assessment of unethical conduct, and have its ethical conduct program audited by internal auditors or CPA periodically?	V		The Group’s internal auditors regularly conduct audits to ensure all business transactions follow internal company control regulations, laws and relevant standards. They also continually update internal controls and obtain approval from the Board of Directors in order to allow internal procedures to perform with maximum efficiency. The CPA firm also conducts routine audits yearly.	None
(5) Does the company regularly hold internal and external educational trainings on operational integrity?	V		The Groups’ president personally instructs new employees on the Company’s corporate culture and operating principles. The online course of “Advocacy of Integrity Management Behaviors” has been organized for the entire staff once a year, and the content of this course includes the six major topics of processing of major internal information, prevention of insider transaction, avoidance of conflict of interests, protection of trade secret, integrity management, and informing channel. The advocacy of relevant information has been conducted once every six months.	None
3. Operation of the integrity channel				
(1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	V		The Group has stipulated the specific informing and reward systems in the “Procedures for Ethical Management and Guidelines for Conduct” and “Guidelines for Handling Grievance and Whistle-blowing”, and the Intellectual Property and Legal Department and Audit Department will assist in dealing with relevant matters.	None

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(2) Whether the company has established standard operation procedures for investigating the complaints received, follow-up measures after investigation are completed, and ensuring such complaints are handled in a confidential manner?	V		The Group’s “Procedures for Ethical Management and Guidelines for Conduct” and “Guidelines for Handling Grievance and Whistle-blowing” established related standard operation procedures for reporting unethical conduct. In addition to preparing and organizing an investigation team to clarify the facts in the report, and delivering such to the appropriate police department based on the severity of the case, self-reviews and revisions on internal controls are also conducted in order to prevent any similar situation from reoccurring.	None
(3) Does the company provide proper whistleblower protection?	V		The “Guidelines for Handling Grievance and Whistle-blowing” of the Group has specified the confidentiality principle with respect to the informant, reward measures, and penalty for rule violation.	None
4. Strengthening information disclosure				
(1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?	V		The Group has established a website (www.novatek.com.tw), and discloses its ethical management principles in the “Corporate Governance” section. The Information Technology Division organized a responsible party to update the information on the website, making it easier to fully disclose all of the Company’s latest ethical management and corporate governance information.	None
5. If the company has established Principles of Ethical Corporate Management based on TSE Corporate Conduct and Ethics Best Practice Principles, please describe any discrepancy between the policies and their implementation. The Group has established Principles of Ethical Corporate Management. The management and board members shall exercise all business activities complied with these principles.				
6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies). The Group has established ethical management principles, with the president and managements all maintaining ethical work in their operating principles, and executing all business activities according to these principles.				

7. Information Disclosure regarding “Corporate Best-Practice Principles”:

The Group has taken into consideration the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” in establishing its corporate governance principles, with the Company website including a dedicated “Corporate Governance” section that investors are able to inquire about and download related corporate governance regulations.

8. Other Information Disclosure: None.

9. Internal Control Status

a. Statement of internal control

Novatek Microelectronics Corp. Statement of Internal Control

Date: February 25, 2021

Novatek Microelectronics Corp has conducted internal audit in accordance with its Internal Control Regulation covering the period from January 1 to December 31, 2020, and hereby declares as follows:

1. The Company acknowledges and understands that the establishing, operating and maintaining an internal control system are the responsibility of its board and management. The Company has already established such a system in order to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operation (including profitability, performance and security of assets) (2) the reliability of financial reporting and (3) the compliance with applicable laws and regulations.
2. An Internal control system has its inherent limitation. No matter how perfect the design is, the internal control system can only provide reasonable assurances of achieving the aforementioned objectives. The effectiveness of the internal control system is also subject to changes in the environment and circumstances. The Company's internal control system contains self-monitoring mechanisms, and the Company will take corrective actions whenever a deficiency is identified.
3. The Company assesses the effectiveness in the design and execution of the Company's internal control system in accordance with the Criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinafter referred to as "the Criteria"). The judgment items for internal control employed by the Criteria contains five components, based on the process of management control: (1) Control Environment (2) Risk assessment (3) Control Activities (4) Information and Communication and (5) Monitoring. Each component further contains certain items, which could be referred to the Criteria for details.
4. The Company has adopted the aforementioned judgment items to evaluate the effectiveness of the design and execution of its internal control system.
5. Based on the aforementioned audit findings, the Company believes that the effectiveness of the design and execution of its internal control system (including subsidiaries), during the year 2020, provides reasonable assurance of achieving the goals of efficiency and effectiveness of operations, the reliability of financial reports and the compliance with applicable laws and regulations.
6. This statement is an integral part of the Company's annual report for the year 2020 and prospects, and will be made the public. Any misstatement, concealment, or other illegality in the content would be subject to legal liabilities of Article 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This statement of has been approved by the Board on February 25, 2021, which eight directors attending agreed with the content of the Statement.

Novatek Microelectronics Corp.

Chairman: Tai-Shung, Ho

President: Steve Wang

b. The Company was not required to commission an independent auditor to audit its internal control system.

10. Description of violations/infringement of regulations and the company's response:

None.

11. Major resolutions of the shareholders' meeting and the board meetings

Date	Resolution
Board meeting of Mar. 18, 2020	<ol style="list-style-type: none"> 1. Approving 2019 business report and financial statements. 2. Approving the capital increase in subsidiary Cheertek International Inc. 3. Approving the amendment to "Procedures of Endorsements & Guarantees" 4. Approving the amendment to "Procedures of Loaning of Funds" 5. Approving 2020 business plan and capital expenditure budget plan. 6. Acceptance of the date, location and agenda for 2020 shareholders' meeting
Board meeting of Apr. 24, 2020	<ol style="list-style-type: none"> 1. Approving the distribution of 2019 profits 2. Approving the cash distribution based on the capital surplus. 3. Approving the capital increase in subsidiary Novatek International (BVI) Ltd. 4. Approving the amendment to internal control systems and internal audit implementation rules of "Financing Cycle"
Shareholders' meeting of June 9, 2020	<ol style="list-style-type: none"> 1. Approving 2019 business report and financial statements as well as the distribution of 2019 profits. 2. Approving the cash distribution based on the capital surplus. 3. Approving the amendment to "Procedures of Endorsements & Guarantees". 4. Approving the amendment to "Procedures of Loaning of Funds"
Board meeting of Jul. 31, 2020	<ol style="list-style-type: none"> 1. Approving the 2020 fixed pay of new managers.
Board meeting of Nov. 4, 2020	<ol style="list-style-type: none"> 1. Approving 2021 "Internal Audit Plan" 2. Approving the capital increase in subsidiary Novatek International (BVI) Ltd. 3. Approving the capital increase in subsidiary Cheertek International Inc. 4. Approving the announcement of no lending funds to other parties in the third quarter of 2020 5. Approving the establishment of Novatek's Zhubei branch
Board meeting of Feb. 25, 2021	<ol style="list-style-type: none"> 1. Approving 2020 business report and financial statements. 2. Approving the announcement of no lending funds to other parties in the fourth quarter of 2020. 3. Approving 2021 business plan and capital expenditure budget plan.
Board meeting of Mar. 17, 2021	<ol style="list-style-type: none"> 1. Approving the election of eight Directors for the 9th Board of Directors (including three independent Directors) 2. Approving the nomination of the Director candidates for the 9th Board of Directors 3. Approving the lifting of the non-competition restriction for the new Directors of the 9th Board of Directors 4. Acceptance of the date, location and agenda for 2021 shareholders' meeting 5. Approving join the incorporation of "TGVest Fund II"
Board meeting of Apr. 26, 2021	<ol style="list-style-type: none"> 1. Approving the distribution of 2020 profits 2. Approving the review of the nomination of the Director candidates for the 9th Board of Directors 3. Approving the capital increase in subsidiary Novatek International (BVI) Ltd. 4. Approving the establishment of Novatek Beijing subsidiary 5. Approving the announcement of no lending funds to other parties in the first quarter of 2021

Implementation status of the major resolutions approved by 2020 shareholders' meeting:

1. Approving 2019 business report and financial statements.
2. Approving the distribution of 2019 profits.
3. Approving the cash distribution based on the capital surplus.
4. Approving the amendment to "Procedures of Endorsements & Guarantees".
5. Approving the amendment to "Procedures of Loaning of Funds".

Implementation status:

After the distribution of profits proposal was passed in the shareholders' meeting, the ex-dividend date has been set on Jul. 19, 2020. All cash dividends, including cash dividends base on capital surplus were distributed on Aug. 14, 2020; after amendment, the "Procedures of Endorsements & Guarantees" and "Procedures of Loaning of Funds" were promulgated on the Company website and Market Observation Post System by the end of June, 2020.

12. Directors' or supervisors' objections against the important resolution of board meetings up to date of publication:

None.

13. Information of resignation or dismissal of the persons related to the financial reports up to date of publication:

None.

E. Disclosure of Audit Fees

CPA Firm	Name of CPA		Period	Remarks
Ernst & Young	Hans Chen	Eric Kuo	2020	-

Unit: NT\$K

Range \ Items		Audit Fee	Non-audit Fee	Total
1	Less than \$2,000,000		250	
2	\$2,000,000 (incl.) - \$4,000,000			
3	\$4,000,000 (incl.) - \$6,000,000	5,330		5,580
4	\$6,000,000 (incl.) - \$8,000,000			
5	\$8,000,000 (incl.) - \$10,000,000			
6	\$100,000,000 and above			

Unit: NT\$K

CPA Firm	Name of CPA	Audit Fee	Non-audit Fee					Period	Remarks
			System Design	Company Registration	Haman Resource	Others	Subtotal		
Ernst & Young	Hans Chen Eric Kuo	5,330	-	20	-	230	250	2020	Non-audit Fee - Others, refers to transfer pricing report

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

None.

2. If there is any change in the appointed independent auditors with the company's annual auditing expenses decreased simultaneously, information regarding the amount, percentage and reasons for the decrease in auditing expenses shall be disclosed:

Not Applicable.

3. Any auditing expenses decreased by 10% in comparison to the previous year:

None.

F. Changes in Independent Auditors:

None.

G. Novatek's Chairman, President, CFO, or Director of accounting division working in the accounting firm of the appointed independent auditors or the related parties within the past year:

Not Applicable.

H. Changes in shareholding of Directors, Officers and major shareholders holding more than 10% shares for the preceding year to the date of the annual report printed.

1. Changes in shareholding of Directors, managers and major shareholders

Unit: Shares

Title	Name	2020		As of April 10, 2021	
		Shares increased (decreased)	Pledge shares increased (decreased)	Shares increased (decreased)	Pledge shares increased (decreased)
Chairman	Tai-Shung ,Ho	-	-	-	-
Vice chairman and President	Steve Wang	-	-	110,000	-
Institutional Director	UMC	-	-	-	-
Director	Max Wu	-	-	-	-
Independent Director	Chen-en, Ko	-	-	-	-
Independent Director	Max Fang	-	-	-	-
Independent Director	Jack Tsai	-	-	-	-
Director and senior Vice President	J.H. Chang	-	-	(Note 1)	
Vice President	Tommy Chen	-	-	-	-
Vice President	Jeff Hsu	-	-	-	-
Vice President	J.D. Lai	-	-	-	-
Vice President	David Chen	-	-	-	-
Vice President	Jang-San, Chen	-	-	-	-
Vice President	Nagayasu	-	-	-	-
Vice President	Jason Huang	-	-	-	-
Assistant Vice President	Edward Tsai	-	-	-	-
Assistant Vice President	Jimmy Su	-	-	-	-
Assistant Vice President	Allen Lu	(Note 2)			
Assistant Vice President (Note 3)	Jason Hsieh	-	-	-	-
Assistant Vice President (Note 4)	Michael Cheng	NA		-	-
Assistant Vice President (Note 4)	Daniel Ping			-	-
Finance Director	Sheng-Cheng, Chou	-	-	-	-

Note 1: J.H. Chang has retired on Apr. 1, 2021.

Note 2: Allen Lu has resigned on Apr. 10, 2020.

Note 3: Shares of Jason Hsieh was calculated from the on-board day, May 4, 2020.

Note 4: Shares of Michael Cheng and Daniel Ping were calculated from the on-board day, Apr. 1, 2021.

2. Information on stock transfer: None.

3. Information on pledge of share: None.

I. The relationship between any of the company's top ten shareholders:

April 10, 2021; Unit: shares

Top ten shareholders	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Top ten Shareholders Who are Related	
	Share	%	Share	%	Share	%	Share	Relationship
New Labor Pension Fund	23,615,265	3.88%	-	-	-	-	-	-
Vontobel Fund - MTX Sustainable Emerging Markets Leaders	18,167,728	2.99%						
United Microelectronics Corp. Chairman: Stan Hung	16,444,587	2.70%	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
BNP Paribas Arbitrage S.N.C.	10,951,583	1.80%	-	-	-	-	-	-
Tai-Shung ,Ho	8,515,133	1.40%						
Vanguard Emerging Markets Stock Index Fund	8,126,560	1.34%						
Old Labor Pension Fund	7,595,264	1.25%	-	-	-	-	-	-
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	7,243,121	1.19%	-	-	-	-	-	-
Nan Shan Life Insurance Co., Ltd Chairman: Tang Chen	6,532,000	1.07%	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Fubon Life Insurance Co., Ltd Chairman: Richard M. Tsai	6,469,000	1.06%	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

J. Total shareholding of long-term investments held by the company and Directors, Officers and Affiliates:

December 31, 2020; Unit: K shares, %

Investment	Novatek Investment		Held by the Company's directors, officers, or directly and indirectly controlled companies		Total	
	Shares	%	Shares	%	Shares	%
Novatek Japan Kabushiki-Kaisha	400	100.00	-	-	400	100.00
NTK International Limited	5,000,003	100.00	-	-	5,000,003	100.00
Novatek Investment Corp., Ltd.	58,000,000	100.00	-	-	58,000,000	100.00
Novatek International (BVI) Ltd.	50,000,000	100.00	-	-	50,000,000	100.00
Cheertek International Inc.	7,000,000	100.00	-	-	7,000,000	100.00

Note: The aforementioned are long-term investments accounted for using the equity method.

IV. Capital Raise

A. Capital and Shares

1. Source of Capital

Year & Month	Issuing Price	Authorized		Paid-in		Remarks		
		Shares (K)	Amount (\$K)	Shares (K)	Amount (\$K)	Source of Equity	Capital increase by assets other than cash	Other
03/2013	10	750,000	7,500,000	605,885	6,058,855	Exercise of stock options	-	Note 1
05/2013	10	750,000	7,500,000	606,632	6,066,319	Exercise of stock options	-	Note 2
08/2013	10	750,000	7,500,000	607,096	6,070,961	Exercise of stock options	-	Note 3
12/2013	10	750,000	7,500,000	608,160	6,081,597	Exercise of stock options	-	Note 4
03/2014	10	750,000	7,500,000	608,511	6,085,115	Exercise of stock options	-	Note 5

Note 1: The capitalization was approved by the Hsinchu Science Park Administration on Mar. 28, 2013 with an approval letter of Yuan-Shang-Tzu No. 1020009111.

Note 2: The capitalization was approved by the Hsinchu Science Park Administration on May 8, 2013 with an approval letter of Yuan-Shang-Tzu No. 1020013231.

Note 3: The capitalization was approved by the Hsinchu Science Park Administration on Aug. 8, 2013 with an approval letter of Yuan-Shang-Tzu No. 1020023615.

Note 4: The capitalization was approved by the Hsinchu Science Park Administration on Nov. 12, 2013 with an approval letter of Yuan-Shang-Tzu No. 1020034423.

Note 5: The capitalization was approved by the Hsinchu Science Park Administration on Mar. 10, 2014 with an approval letter of Yuan-Shang-Tzu No. 1030006784.

April 10, 2021; Unit: Shares

Type of share	Authorized Capital			Remarks
	Outstanding Shares	Un-issued Shares	Total	
Common stock	608,511,469	141,488,531	750,000,000	-

Shelf Registration: Not Applicable.

2. Structure of Shareholder

April 10, 2021; Unit: Shares, %

Type Number	Government institution	Financial institution	Institutional investors	Individual investors	Foreign institution & investors	Total
Number of Shareholders	5	64	599	50,511	1,257	52,436
Shareholding	41,204,461	32,936,117	67,207,419	111,129,646	356,033,826	608,511,469
Shareholding Percentage	6.77	5.41	11.05	18.26	58.51	100.00

3. Distribution of Shareholding

April 10, 2021

Category	Number of Shareholders	Shareholding	Shareholding Percentage
1 to 999	30,286	2,158,118	0.35%
1,000 to 5,000	18,532	29,772,807	4.89%
5,001 to 10,000	1,320	9,926,653	1.63%
10,001 to 15,000	446	5,575,105	0.92%
15,001 to 20,000	279	5,047,908	0.83%
20,001 to 30,000	296	7,408,372	1.22%
30,001 to 50,000	289	11,447,697	1.88%
50,001 to 100,000	339	23,769,389	3.91%
100,001 to 200,000	233	33,333,813	5.48%
200,001 to 400,000	172	49,598,027	8.15%
400,001 to 600,000	67	33,173,502	5.45%
600,001 to 800,000	39	27,601,989	4.54%
800,001 to 1,000,000	36	32,866,375	5.40%
1,000,001 and above	102	336,831,714	55.35%
Total	52,436	608,511,469	100.00%

Note: Novatek has not issued preferred stocks.

4. List of Major Shareholders

April 10, 2021; Unit: Shares

Shareholder	Shareholding	Shares	Percentage of Shareholding
New Labor Pension Fund		23,615,265	3.88%
Vontobel Fund - MTX Sustainable Emerging Markets Leaders		18,167,728	2.99%
United Microelectronics Corp.		16,444,587	2.70%
BNP Paribas Arbitrage S.N.C.		10,951,583	1.80%
Tai-Shung ,Ho		8,515,133	1.40%
Vanguard Emerging Markets Stock Index Fund		8,126,560	1.34%
Old Labor Pension Fund		7,595,264	1.25%
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds		7,243,121	1.19%
Nan Shan Life Insurance Co., Ltd		6,532,000	1.07%
Fubon Life Insurance Co., Ltd		6,469,000	1.06%

5. Market price, net worth, earning, and dividends per common share and related information over the last two years

Item \ Year		2019	2020	March 31, 2021
Market price per share	Highest	239.00	375.00	598.00
	Lowest	130.50	143.00	355.00
	Average	185.07	243.56	481.92
Net worth per share (Note 1)	Before distribution	54.36	65.64	75.63
	After distribution	43.86	-	-
Earnings per share	Weighted average shares	608,511,469	608,511,469	608,511,469
	Earnings per share (Note 2)	13.03	19.42	9.66
Dividends per share	Cash dividends (Note 3)		8.80	10.50
	Stock dividends	From retained earnings	-	-
		From capital reserve	-	-
	Accumulated unappropriated dividends		-	-
Return on investment	Price/earnings ratio (Note 4)		14.20	12.54
	Price/dividend ratio (Note 5)		21.03	23.20
	Cash dividends yield (Note 6)		4.75%	4.31%

Note 1: The calculation was based on outstanding shares for the end of the year and the distribution approved by shareholders' meeting in 2020.

Note 2: None of retroactive adjustment needed.

Note 3: Distribution of profit generated from the preceding year.

Note 4: Price / Earnings Ratio = Average Market Price / Earnings Per Share.

Note 5: Price / Dividend Ratio = Average Market Price / Cash Dividends Per Share.

Note 6: Cash Dividend Yield = Cash Dividends Per share / Average Market Price.

6. Dividend policy and status of execution

a. Dividend policy

In accordance with the Articles of Incorporation, the Board of Directors is entitled to propose the profit distribution plan to get approval of shareholders' meeting depending on capital, financial structure, operating status and profit consideration. The dividend is usually distributed by way of both cash dividend and stock dividend to achieve a balance of dividend policy. With no other special circumstances, the total dividends are distributed not less than 50% of the current year's after-tax earnings while cash dividends are distributed not less than 50% of total dividends.

The Company's dividend policy regulated in the Articles of Incorporation is as follows:

The current year's earning, if any, shall be distributed in the following order:

- (1) Payment of taxes and duties;
- (2) Redemption of loss for previous years;
- (3) 10% legal reserve; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- (4) Appropriation or reversal for special surplus reserves in accordance with law;
- (5) The remaining balance used for shareholder bonuses which are distributed after the approval of Shareholders' meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting. Dividends distributed to shareholders, if any, could be paid in the form of cash or share dividends. At least 50% of the dividends must be paid in the form of cash.

According to the competent authority, for the debit to Shareholders' Equity including long-term stock investment unrealized loss in valuation and cumulative conversion adjustment, an equivalent amount of special surplus reserves should be appropriated within the legal threshold. Once the debit to Shareholders' Equity is reversed, an amount equivalent to the reverse is used to make up loss or distribute earnings.

b. Proposal for stock dividend allocation at shareholders' meeting

Considering share capital, operation status, financial structure, and future annual profitability, in this shareholders' meeting the Company planned to allot NTD 9,492,778,916 and cash dividend of NTD 15.6 per share. It will be carried out on a base day determined by the Chairman after the resolution by the shareholders' meeting.

c. Expected material changes of dividend policy

With no other special circumstances, the Company's dividend policy is regulated as above. None of material exchanges is expected.

7. Impact to business performance and EPS resulting from stock dividend distribution:

None.

8. Employee compensation and Remuneration to Directors

a. Profit distribution set aside as employee compensation and remuneration to directors

The distribution policy of employee compensation and directors' remuneration regulated in the Company's Articles of Incorporation is as follows:

Article 23-1: No more than 0.4% of profit of the current year shall be distributed as remuneration to directors and paid in cash.

Article 23-2: No more than 0.1% of profit of the current year shall be distributed as employee's compensation after deducting and setting aside an amount equal to the cumulative losses (if any). The compensation to employees may be made in the form of shares or in cash.

b. Accounting for Employee Compensation and Remuneration to Directors

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2020 to be NT\$147,040,793 and NT\$12,000,000, respectively, recognized as salary expenses in the current period. If the estimated amounts differ from the actual distribution resolved by the board of directors, the Company will recognize the change as an adjustment to income of next year. If the board of directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed as employees' compensation was calculated based on the closing price one day earlier than the date of resolution.

According to the Article 235-1 of the Company Act, the profit of current year refers to before-tax profit before deducting distributed amount of employee compensation.

No differences exist between the recognized amount and the actual cash paid distribution of the employee bonuses and remuneration to directors approved by the Board of directors on Feb. 25, 2021.

c. Employee compensation and Remuneration to Directors resolved by the Board of Directors

- (1) Total NT\$147,040,793 for employee compensation paid in cash; NT\$12,000,000 for directors' remuneration paid in cash.
- (2) None paid in stock.

d. 2019 Profit distribution set aside as Employee Compensation and Remuneration to Directors

2019 profit distribution has been resolved by the Board of directors on March 18, 2020. Actual allocation was NT\$99,284,940 for employee compensation and NT\$12,000,000 for directors' remuneration, and has been fully disbursed in 2020. No differences exist between the recognized amount and the actual distribution of the employee bonuses and remuneration to directors for the year ended December 31, 2019.

9. Status of treasury stocks: None.

B. Status of Corporate Bonds: None.

C. Status of Preferred Stocks: None.

D. Status of GDR/ADR: None.

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

F. Status of Employee Restricted Stock: None.

G. Status of Mergers or Acquisitions, or as assignee of new shares issued by other companies:

1. Status of completed mergers or acquisitions: None.

2. Status of ongoing mergers or acquisitions: None.

H. Status of Implementation of Fund Utilization Plan

1. Content of plan

Unaccomplished solicitation of funds through stock offering or private placement of stock or plans accomplished in the last three years but yielding no desired results: None.

2. Status of implementation: Not Applicable.

V. Operational Highlights

A. Business Activities

1. Business Scope

a. Major activities

—Novatek

- (1) Electronic parts manufacturing
- (2) Information software services
- (3) International trade
 - a. Research, development, design, manufacturing and sales of the following products:
 1. Speech-control ICs & system solution
 2. Communication control ICs & system solution
 3. Embedded microprocessors & system solution
 4. Digital signal processors & solution
 5. PC peripheral ICs & solution
 6. LCD control Driver ICs & solution
 7. CMOS Image Sensor and Image Signal Processor
 - b. Development, testing, maintenance and technical support of related application software and hardware and its solutions to aforementioned products.
 - c. Import and export of aforementioned products.

—Affiliated Companies

- a. Design, testing, sales and consulting of semiconductor application software
- b. Investment activities

b. Sales breakdown

Category	Display Driver IC	SoC	Other
Revenue Mix (%)	66.88%	32.38%	0.74%

c. Major products and services

Category	Description
Display Driver IC	<ol style="list-style-type: none"> a. Large size LCD panel and AMOLED panel driver ICs b. Mobile TDDI and mobile AMOLED driver ICs c. Automobile driver ICs d. Wearable driver ICs
SoC	<ol style="list-style-type: none"> a. LCD panel timing controller b. Digital TV controller c. LCD monitor controller d. MEMC controller e. CMOS image sensor for Dash cam and Rear-view f. Surveillance controller g. CMOS image sensor for PC camera h. Power Management Controller

d. New product development plans

- (1) Mini LED driver ICs
- (2) 8K TV controller
- (3) Automobile TDDI
- (4) IVS Intelligent video single chips
- (5) LCD panel Under-Display Fingerprint
- (6) LCD Under-Display Fingerprint/ Touch integrated Driver ICs (FTDI)
- (7) Mobile AMOLED TDDI
- (8) Wearable AMOLED driver ICs
- (9) AMOLED under-Display Fingerprint

2. Industry overview

a. Industry trends

According to the report of the World Semiconductor Trade Statistics (WSTS) issued in December 2020, the total global semiconductor market in 2020 was valued at US\$ 433 billion, with an annual growth rate of 5.1%. This is mainly due to the rebound in memory prices (+12%) and the growth in sensor demand (+7%). In addition, due to the impact of the auto market, the growth of Opto and Discrete declined. The annual growth rate of global semiconductor market is estimated to be 8.4% in 2021, with optoelectronics and memory having the largest growth.

In 2020, due to the COVID-19 pandemic, global shipments of smartphones and automobiles declined. However, with the new trend of working from home and online classes, the shipments of PC showed a double-digit growth, while the shipments of TV remain steady. As the epidemic gradually eases in 2021, global shipments of smartphones and automobiles are expected to rebound driven by 5G, beginning to show growth. The shipments of PC and TV as well as corporate spending are expected to maintain a healthy growth. Despite the optimistic outcome, trade disputes between regions and the impact of inventory turnover are still worthy of continued attention.

According to the research reports issued by OMDIA and Gartner, people can be prudently optimistic about the global semiconductor market in 2021. In the Investor Conference held in January 2021, TSMC estimated that the annual growth rate of global semiconductor market (excluding memory) in 2021 is 8% (based on US dollars), while the growth rate of the total value of wafer manufacturing market is 10%. In the Investor Conference held in January 2021, UMC is also optimistic about the growth of the global semiconductor and wafer manufacturing market in 2021.

Taiwan is a global semiconductor center. According to statistics from the Taiwan Semiconductor Industry Association and the Industrial Technology Research Institute, Taiwan's overall semiconductor output in 2020 has increased significantly by 20.9%, reaching NT\$ 3.22 trillion. Among them, IC design and foundry both have increased by more

than 20%, while memory as well as packaging and testing have increased by more than 10%. It is expected that Taiwan's overall semiconductor output will continue to grow by 8.6% in 2021, of which IC design will grow by 10.9% to NT\$ 945.9 billion, continuing to benefit from the U.S.-China trade war.

Observing the development trend of the semiconductor industry in 2021, China's active deployment of its local supply chain for the semiconductor industry will still be the concern for all interested parties, particularly with the rising de-American trend after the U.S.-China trade war. China will use policies to support the IC demand from the domestic market, driving its local semiconductor supply chain. In 2020, China's deployment of the local manufacturing industry chain, including IC design, foundry, and IC packaging and testing, has become more complete comparing with that in the past. Meanwhile, it is necessary to observe the actions of Huawei, HiSilicon, and SMIC after they have been sanctioned by the United States. However, the memory industry remains the weakest link. Hence, with the support of government funds, Mainland China's companies are consistently pursuing global layouts through cooperative models such as mergers, acquisitions and equity investment. However, with the protectionism of the new US government, merger cases in the US have been thwarted. Moreover, international giants such as Intel, Qualcomm, and Samsung have been focusing on the potential in China's domestic market, and are taking advantage of Mainland China's policy development to invest in layouts in the Chinese market.

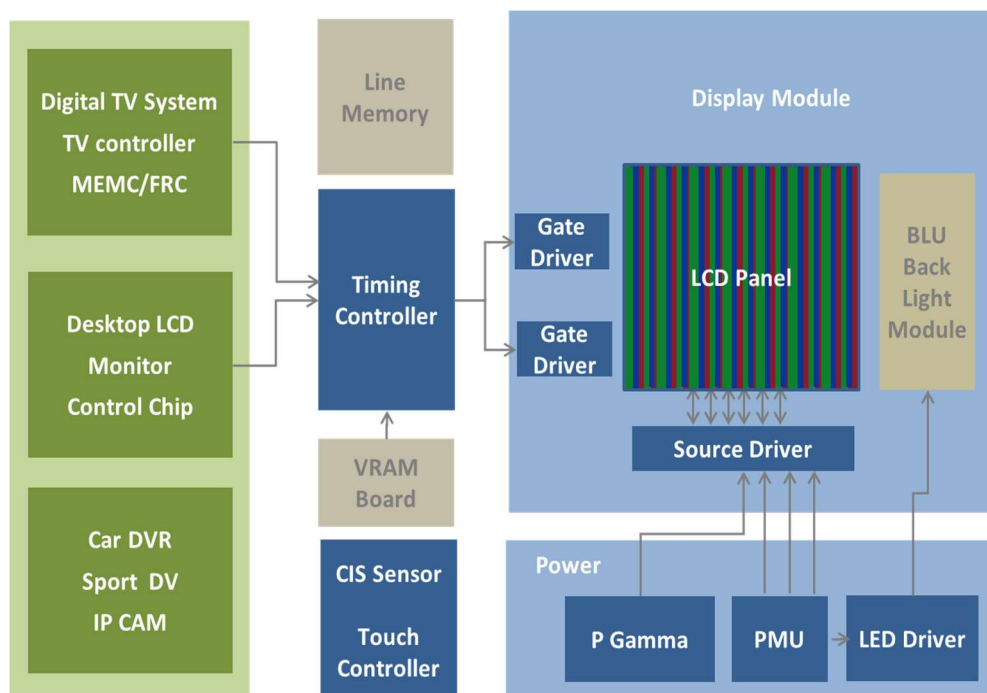
As the global semiconductor market becomes more and more mature, no matter it is to deploy for the next generation application or to respond to the industry trend as reflected in the motto "Winners take all", the main events of global semiconductor industry in 2021 shall still be of acquisition and merge. For Taiwanese companies to maintain their leadership in the global industry when facing the tide of acquisition and merge, Taiwan's Institute for Information Industry suggested that the key is to focus on how to select an appropriate partner, to adopt flexible competing strategies, and to deploy for emerging applications and markets.

b. Infrastructure of the semiconductor industry

Novatek, as an IC fabless, is responsible of circuit design and layout of integrated circuit. After the circuit design has been completed, it is released to foundry for manufacturing of the wafer, and then sent to backend service factory for packaging and testing. The affiliated companies of the Group, Novatek's wholly-owned subsidiaries are responsible for development, testing, maintenance, technical support and consulting of semiconductor application software.

The Group focuses on display technologies and related applications. There are two major product lines: display driver IC for TFT LCD displays including source driver ICs, power management ICs, timing controller ICs, TDDI ICs, and System on Chips (SoC), which includes digital TV controllers, monitor controllers and digital image controllers.

Product Applications:



c. Product Trends

The Group's product line can be categorized as Display Driver ICs and System on Chips (SoC).

The new product development of display driver ICs needs to cope with the panel technologies, as well as to meet various requirements of screen sizes, resolutions and picture quality at different for diverse applications. Large screen resolution has been continuously increasing in recent years. In 2020, the penetration rate of 4K (2160 x 3840) Ultra High Definition (UHD) TV has approached 60%, and brands have introduced 8K TV in succession. Among them, Samsung was the most aggressive one. Japan has planned for their Olympic Games in 2021 to provide 8K broadcasting service. With higher demand for increased picture quality in large screen TVs, the demand of display driver IC, a key component for display quality, has also increased. In terms of design, more efforts are paid to enhancement of higher driving capability with high-speed transmission interfaces, temperature reduction technologies, more IP & chip integration, lower power consumption designs, premium display quality and better picture quality. More attention is also dedicated to reducing the numbers of required parts and materials on the panel side to further help our clients secure overall quality, while at the same time reducing overall costs. The total number of driver ICs in UHD TV panels could be several times more than those in Full HD panels. The Group strives to assist clients when considering system integration and costs to enhance its anti-ESD performance and achieve lower EMI requirements, as well as increasing the yield of mass production and overall reliability. These are all the core of future development in product design and related technologies. In addition, the application of OLED technology to mobile phone panel provides the advantages of more vivid colors, lighter and thinner display.

Samsung of Korea has been mass-producing OLED panels for a long time, while LG of Korea and BOE of China have started their mass production of OLED panels in 2018. In 2019, both companies continued to improve their yields and have received orders from top mobile phone companies. Moreover, Visionox of China also started the mass production of OLED panel. Due to limited funds, Japanese companies are focusing on the printing technology, while Taiwanese companies are optimistic about Mini/Micro LED.

The technologies behind System on Chip (SoC) products is relatively more sophisticated, and require longer R&D cycles, more R&D investment and greater R&D manpower. In recent years, the industry has continued to consolidate, with large players solidifying their positions and enjoying ever more obvious competitive advantages. The Group has invested in the development of SoC products for a long time now, and has secured comprehensive R&D resources, in-house IPs and system development experience and expertise. SoC products will continue to develop towards high price competitiveness, high added value, and high integration. With end product functions trending towards higher end, including applications for UHD TVs, desktop monitors, smart TV systems, large-sized outdoor displays, all of these in turn drive demand for high-end SoC. As for the continuing trend in SoC towards higher integration, we will continue to apply advanced node of process for wafer manufacturing, create more powerful functions, deploy related IPs, establish self-owned IPs and comprehensive SoC design databases, and establish internal software & hardware platform. We will also continue strengthening product design and integration ability, upgrade our mass production experience and quality, and increase scale of economy and cost control. These are the Group's core focus for SoC-related technologies and long-term market development.

d. Competition

According to the latest report on the global competitive market published from the world-renowned OMDIA, 1-3Q 2020 Display Driver ICs market tracker, the top ten display driver supplier worldwide accounted for over 91.0% of market share, with the top suppliers always maintaining their positions. In the end of 2019, Synaptics announced its plan to sell the LCD TDDI mobile phone team in Asia to a Chinese company for USD 120 million. In July 2020, MediaTek announced its plan to sell Ilitek, which was merged in 2015, to private equity funds for NT\$ 4.08 billion. The entire landscape of the global display driver industry was once again reconfigured. With the fast growth of new touch screen technologies, there were new rules to the game, and each company had to draw up new technological roadmap for the new business.

The business of display drivers is found in large volume with a wide range of diverse products, while featuring relatively mature technologies. As for the IC fabless with their comparatively smaller scale of economy, the threshold for profit is gradually getting higher and higher. However, with the comprehensive support of Chinese government policies

promoting self-sufficiency in the Chinese panel industry, a number of new IC companies have sprung up in the country to actively invest in the development of display drivers. The Chinese government has announced aggressive policies to support its domestic IC fabless industry, and has invested a huge amount of funds to supporting related industries. Combined with the continual increase of local chip purchasing by China's panel factories, as well as the support from Chinese TV and mobile phone name brands, the competition posed by Chinese display drivers should not be overlooked. According to Taiwan's semiconductor industry supply chain manufacturers, Chinese panel driver chip makers have been gradually penetrating the markets of smart phones and large-sized LCD panel.

Facing ever-increasing competition, chip suppliers must continue to expand their product lines to sustain stable long-term revenue growth. At the same time, this can also minimize seasonal fluctuations in revenue that results from single product line or selected few applications. In addition to broadening customer basis and expanding product line and reducing the risk of excessive focusing on limited few clients, it is even more important for chip suppliers to be able to secure wafer supply and to optimize the management of the supply chain, so as to further reduce operating expenses. These internal and external challenges will again reinforce the competitive ability of IC fabless company.

Compared to display drivers, competition in the field of SoC products is more rigorous. This is mainly due to the fact that SoC products are more complex, with longer R&D cycles, demand intensive investment of R&D personnel, utilize costlier advanced process manufacturing techniques, and require higher R&D investments. As a result, the factors of technology, personnel and funding have created a higher entry barrier and a high threshold of turning a profit. Following the successful completion of the R&D stage, and a smooth initial mass production stage, variables and difficulties actually begin to increase due to system integration and platforms targeting for high level of product differentiation and various models. This in turn lengthens the time from chip qualification at the client and phase into mass production. Therefore, the R&D of SoC products truly examines the long-term competitive ability of chip suppliers; for smaller IC design houses, operating funds, economic scale, resources and manpower are all serious challenges.

3. Research and Development

a. Summary of R&D expenses for 2019, 2020 and Q1 2021

Unit: NT\$K

Item / Year	2019 Consolidated	2020 Consolidated	Q1 2021 Consolidated
R&D expenses (A)	8,901,602	10,994,303	3,597,203
Net sales (B)	64,372,306	79,955,520	26,366,515
(A) / (B)	13.83%	13.75%	13.64%

b. Successful R&D technologies and products

1	Introduced automobile a-Si HD720 TDDI with dual-gate GIP & 8ch button touch function.
2	Introduced automotive LVDS Interface Tcon with Max. 288 zone local dimming function.
3	Introduced automobile LTPS FHD 2-chip cascade TDDI with ASIL error detect & OSD function.
4	Introduced Optical FPR Sensor with Anti-spoofing for under OLED solution.
5	Introduced Novatek's new generation of mainstream UHD Smart TV SoC with AV1 UHD decoder, HDMI 2.1 feature support, and full TCON features. To provide better cost-performance ratio to customers.
6	Introduced Novatek's new generation of 8K TV SoC single chip solution with 8K60Hz MEMC, AV1&H.265 8K decoder, AI PQ, Adv. PQ, AI NPU and HDMI 2.1 support.
7	Introduced HDMI 2.1 12G + DP1.4 8.1G gaming monitor single chip solution.
8	Introduced HDMI 2.1 + DP1.4 Input / Output 8k4k signage controller.
9	Introduced a professional surveillance SoC equipped with a self-developed deep learning accelerator (DLA), which is targeted for multi-channel HD or SD DVR/NVR/HVR applications. As an edge AI platform, various general-purpose detection networks are supported, such as MobileNET/SSD/YOLO V3, etc. Built in ARM Cortex A9 dual-core CPU, H.265/H.264 video encoding/decoding engine, video/graphic processing engine, 4K UHD display, RGMII ethernet, SATA2.0 and USB2.0. By these features. Provide customers high-video-quality and high-performance, which is suitable for advanced applications including smart surveillance and security.
10	In 2020, Novatek launched a 4Kp30 video processing SoC equipped with a self-developed stereo-depth engine and deep learning hardware accelerator (DLA) with a computing power of 1.5Tops. It supports dual HDR sensor inputs and panoramic fish-eye correction. The integration of multiple hardware technologies enables deep learning to be implemented in various video processing applications. Including smart surveillance of the security industry, Intelligent analysis of driving images and safety analysis of home care.
11	Launched Novatek's first WFHD 120Hz AMOLED driver IC which can display smoothly and have better performance at high frame rate device.
12	Launched AMOLED TDDI for wearables, which has the smallest chip size and lowest power consumption in the industry.
13	Introduced 4K Micro OLED DDIC. Advanced bonding technology realized chip on silicon process.
14	Launched 120Hz RGBW TDDI, which can improve transmittance of LTPS type TFT-LCD.
15	Launched FTDI 120Hz driver IC which touch, display and fingerprint technologies are integrated in one chip for mobile LTPS type display.
16	Introduced Novatek's new 8 bits USIT 966ch COF source driver IC supporting 8K4K, 1D1G and high refresh rate display.
17	Introduced Novatek's new generation 8 bits CEDS 960ch COF source driver IC for 4K2K 120Hz TV market.
18	Mass-produced Novatek's new 8 bits mLVDS COF source driver with low power for monitor market (ES9.0).

19	Introduced Novatek's first 8 bits PHI 1926ch COG source driver IC supporting QHD gaming notebook and easy to super narrow bezel panel design.
20	Introduced Novatek's new generation 8 bits ISP 1446ch COG source driver IC with low power & super narrow bezel for main-stream NB market.
21	Mass-produced Novatek's new generation 8 bits CMPI 966ch COF TV source driver IC.
22	Introduced Novatek's new generation 8bits PHI 1446ch COG driver IC with low power application for super narrow bezel QHD NB market.
23	Developed SRAM-based Computing In-Memory (CIM) memory macro circuits and provided high efficiency (TOPS/W) and ultra-low-power AI computation engine. We also developed complete peripheral circuits, algorithms and deployment software to enable a full function AI deep learning accelerator. These techniques can be applied to TV SoC, Dashcam, IP camera, and fingerprint IC.
24	Developed Low bit-width quantization algorithms to reduce the fixed point bitwidth of weight and activation of AI models down to 4-bit while still maintaining the TOP-1 accuracy error within 1%. Used together with the aforementioned CIM technique, low bit-width quantization can greatly improve the computation efficiency and lower the power consumption of computation and memory access.
25	Developed AI inference trainer and simulator and included the circuit behavior of CIM in it. The simulator can reflect the impact of the accuracy due to the non-ideal behavior of CIM computation. The trainer can perform AI re-training to mitigate the non-ideal effect and improve model accuracy.
26	Introduced Novatek's new timing controller for TV UHD 144Hz high frame rate application, support mega zone local dimming and dual cell backlight module.
27	Introduced Novatek's new generation WQHD resolution LVDS timing controller, embedded mini-LVDS and P2P interference solution in Monitor application.
28	Introduced Novatek's new eDP 1.4b timing controller with OLED panel display function in NB and Monitor application.
29	Introduced Novatek's new generation 22nm process eDP HBR2 1.4b WQHD low power consumption timing controller solution with HDR and Touch function.

4. Business plan

a. Short-term development plan

(1) Sales and marketing strategy

- i. To leverage its solid market resources and existing customer base to enlarge and broaden its customer base, especially in Japan and Korea market.
- ii. Continuous efforts to assure the long-term partnership with major international panel manufactures and to secure the leadership of global LCD driver IC supply.
- iii. Commitment to service and support to maximize customers' long-term profitability.

(2) Manufacturing strategy

- i. To maintain a tight, long-term partnership with suppliers to secure long-term support and stabilization of capacity.
- ii. To continue developing new domestic and foreign wafer factories and contracts to increase wafer supply sources and provide clients with more choices in production

location.

- iii. Establish information systems connected to downstream packaging and testing plants, in order to better control production progress and volume.
- iv. To apply advanced fabrication technology & processes, increasing the allotment of wafers larger than 12" size and advance nodes.

(3) Product development

- i. To continue developing market potential for flat-panel display driver, video controller, A/V controller and PC peripheral controller ICs with other leading brands in the industry.
- ii. To maintain the development of balanced product lines in order to lower the risk of downward trends of individual product lines affecting operations or net income.

(4) Operating strategy

- i. To maintain high market share by actively expanding product lines and leveraging technological, service and cost advantages.
- ii. Actively adopt advanced processes to develop new product opportunities and develop advanced technological products.
- iii. Actively establish overseas locations and market channels.

(5) Financial strategy

- i. Adequately lever a variety of capital market tools to obtain low-cost funds for the operational development of the Group.
- ii. Carefully use funds to lower currency exchange risk and create reasonable financial profit.

b. Long-term development plan

(1) Sales and marketing strategy

- i. Establish complete sales locations and strengthening analysis of market changes (including consumer, production and product trends) in conjunction with international development strategies in order improve brand recognition and market share.
- ii. Actively develop professional sales talent to improve international marketing ability and obtain marketing cooperation with large global manufacturers.
- iii. Continue strengthening the development of marketing specialists with globally-known manufacturers as our main target customers. Establish global networks and sales points through the establishment of subsidiaries in order to become a global brand.

(2) Manufacturing strategy

- i. Provide customers with fast, accurate and complete production environments through close, stable cooperation with outsourced partners.
- ii. Continue to utilize advanced manufacturing techniques for wafers and backend packaging in order to lower costs and establish material supply advantages.

- iii. Continue our excellent cooperative relationships with new sub-con wafer manufacturers and create plans to explore feasibility for future investment or cooperation. This will expand production base and lower negative effects from the seasonal highs and lows.
 - iv. Make testing equipment well-planned for cost reduction and capacity expansion to enhance competitiveness.
- (3) Product strategy
- i. Pursue leadership in technology by continuing to invest in the R&D of next-generation products.
 - ii. Develop gradation in current product lines, giving each line the ability to maintain the top position in its field.
 - iii. Increase the scale of IC components, increase the development ratio of mixed-signal ICs, and realize system-on-a-chip, in order to continue increasing product competitiveness and permanently maintain innovative ability, and thus maintain a high level of growth for the Group.
- (4) Operating strategy
- Coordination and interaction among the marketing, production and product strategies will greatly increase overall operational efficiency, while at the same time quickly expanding operating scale. This will transform the Company into an IC design provider well-known both within Taiwan and around the world.
- (5) Financial strategy
- i. Adequately leverage a variety of capital market tools to obtain low-cost funds for the operational development of the Company.
 - ii. Create financial information value.

B. Industry Overview

1. Market Analysis

a. Sales by region of major products and services

Unit: NT\$K

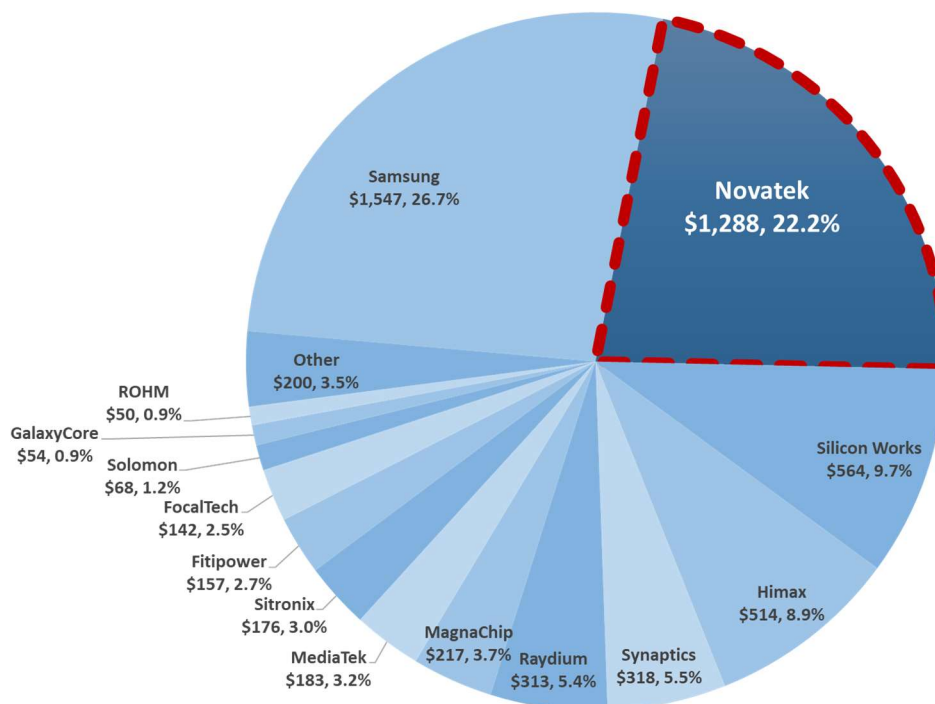
Region \ Year	2019		2020	
	Amount	%	Amount	%
Taiwan	26,250,582	40.78	33,015,712	41.29
Asia/Pacific	37,586,903	58.39	46,160,370	57.73
Others	716,657	1.11	1,005,393	1.26
Sales returns and discounts	(181,836)	(0.28)	(225,955)	(0.28)
Net sales	64,372,306	100.00	79,955,520	100.00

b. Competition and market share

The Group's display driver product line accounted for approximately 67% of the Group's consolidated revenue in 2020.

According to the 1-3Q 2020 Display Driver IC Market Tracker from the internationally renowned research institute OMDIA, the revenue from the Group's complete series of display drivers in 1-3Q 2020 totaled US\$1.29 billion (annual growth 20%), which accounted for 22.2% of the global market, while establishing the Group as the second largest display driver supplier in the world. The Group's main competitors are those display driver IC design houses invested by panel manufacturers, panel manufacturers with in-house design departments, and the independent IC fabless. Therefore, competitors include Samsung, Silicon Works and MagnaChip of Korea; Synaptics of Americas; Raydium, Himax, Focaltech, Mediatek, and Sitronix of Taiwan.

Dollar and market shares, 1-3Q 2020



The Group's SoC product line focuses on digital image and video processing technologies and applications for digital TVs, monitors, automotive video cameras, IP Cam and sports DV. Of these, the Group is among the top three suppliers of digital TV controllers, Timing controllers and desktop monitor controller-scaler worldwide, enjoying stable revenue and establishing close, long-term cooperative relationships with clients. Our timing controllers (TCON) are generally developed in line with the development of new products from major global panel manufacturers. The Group is a major supplier worldwide in terms of related technologies, mass production scale and revenue, and has established long-term partnerships with major panel manufacturers around the world, resulting in stable revenue and market share.

After the cooperation between digital TV controller chip and international first-tier TV brand manufacturer successfully led to mass production in 2014, the volume of new products for existing customers continues to enter the market, and relevant technology and

commercialization capabilities have been certified by international first-tier TV brand manufacturer. In 2020, the revenue of SoC products has increased by more than 30%, reaching nearly NT\$ 26 billion, continuing to hit a record high, and accounting for 32% of the Group's total consolidated revenue in 2020. Among them, TV control IC, monitor control IC and power management IC have all grown by more than 30%.

According to OMDIA, the Group's revenue of 2020 was ranked in top 8 of global fabless chip design company survey and top 2 in Taiwan survey. The Group possesses outstanding R&D talents, self-owned technologies and complete supply chain management ability and achieved decent global market share in the fields of LCD monitor drivers, desktop monitor controllers, timing controllers and TV controllers, recognized as top tier suppliers. Facing the fast changes and fierce competition within this industry, the Group will continue to focus on its display-centered technologies, increase core competitive abilities, and provide clients with comprehensive total solutions.

2019 Ranking	2020 Ranking	Company Name	2020 Revenue(\$)	2019 Revenue(\$)	YoY
1	1	Qualcomm	19,357	14,391	34.5%
2	2	nVidia	13,035	9,491	37.3%
3	3	MediaTek	11,142	7,986	39.5%
5	4	Advanced Micro Devices (AMD)	9,635	6,407	50.4%
4	5	HiSilicon Technologies	8,360	7,964	5.0%
6	6	Xilinx	3,053	3,235	-5.6%
7	7	Marvell Technology Group	2,935	2,683	9.4%
8	8	Novatek	2,729	2,089	30.6%
9	9	Realtek Semiconductor	2,694	1,850	45.6%
11	10	Unisoc	2,286	1,694	34.9%
10	11	Omnivision	2,052	1,716	19.6%
12	12	Dialog Semiconductor	1,409	1,402	0.5%
13	13	Cirrus Logic	1,355	1,242	9.1%
14	14	Synaptics	1,124	1,126	-0.2%
16	15	Goodix Limited	1,065	909	17.2%

c. Market Supply/Demand and Growth in the Future:

The Group focuses on the R&D of display driver and SoC technologies, which is aligned with the global display and CE supply and demand, as well as general economic cycles. The rise and fall of global end-user demand of consumer electronics products drives the growth of our operations. In the Consumer Electronics Show (CES) in early 2021, the Consumer Technology Association (CTA), formerly known as the Consumer Electronics Association (CEA), indicated that artificial intelligence (AI), smart homes (such as voice assistants), self-driving, smart cities, virtual reality (VR) and augmented reality (AR), health sensors, robots, 5G, and advanced display technology (Micro LED/OLED) continue to be the sources of growth for electronic products. Within the global consumer electronics end-user demand, as

well as within the global LCD industry, the various applications, new technologies and competition may all rise and fall independently, yet all influence the growth of output and revenue of the Group different product lines. The impact of respective product lines is stated as follows:

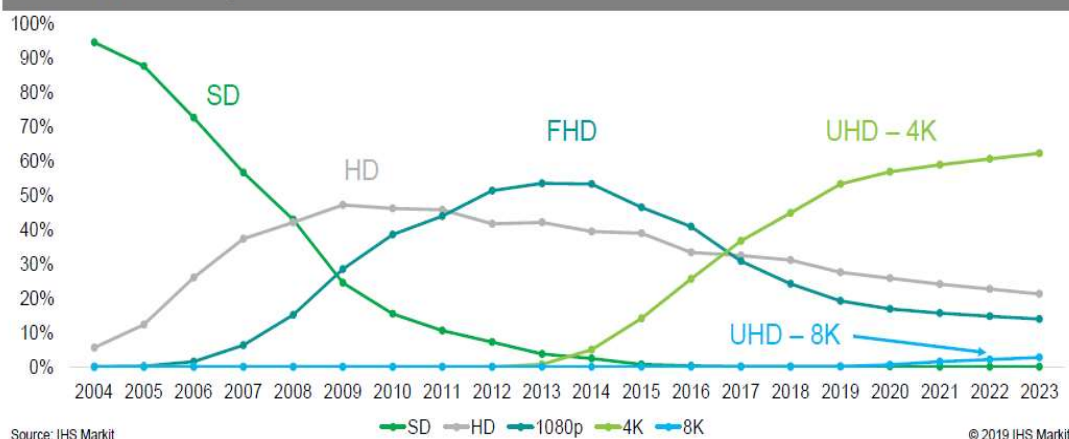
- (1) There has been moderate growth of shipment of LCD TV with increased brand centralization. The OMDIA report pointed out that global shipments of LCD flat-panel TV in 2020 were estimated to be 220 million units, which is about the same as in 2019. This is due to the fact that TV prices are still low and the change of style in work and school in Europe and the United States during the COVID-19 epidemic. It is predicted by OMDIA that in 2021, due to the continued low TV prices and the increase of sports events (such as the Tokyo Olympics and FIFA World Cup), shipments will grow slightly.

Global major LCD TV brand' shipment, 2020 (million units)

2020 Ranking	Company	4Q20	YoY	QoQ	2020	YoY	Share	2019
1	Samsung	15.4	6.9%	4.1%	49.3	11.8%	22.2%	44.1
2	LGE	7.9	-4.8%	8.2%	26.0	-6.1%	11.7%	27.7
3	TCL	7.3	30.4%	5.8%	24.2	18.0%	10.9%	20.5
4	Hisense	6.2	5.1%	8.8%	20.0	16.3%	9.0%	17.2
5	Xiaomi	4.0	-11.1%	33.3%	12.5	-3.8%	5.6%	13.0
6	Sony	3.1	-6.1%	14.8%	8.8	-11.1%	4.0%	9.9
7	Skyworth	2.2	-26.7%	-18.5%	8.7	-14.7%	3.9%	10.2
8	AOC	2.4	-4.0%	14.3%	7.7	-9.4%	3.5%	8.5
9	Vizio	2.4	14.3%	9.1%	7.5	15.4%	3.4%	6.5
10	Sharp	1.7	0.0%	13.3%	5.8	-4.9%	2.6%	6.1
	Other	17.6	1.7%	25.7%	51.3	-12.9%	23.1%	58.9
	Total	70.2	2.3%	11.6%	221.8	-0.4%	100.0%	222.6

- (2) In 2021, the penetration rate of ultra-high-definition TV continues to grow: Replacements are moving toward larger sized televisions, which opens up production capacity for new generation large-size panels and accelerates the demand for ultra-high definition (UHD; Ultra High Definition; 4K2K) television. According to the OMDIA report, annual shipment for UHD 4K TV has increased by approximately 15% in 2020, exceeding 120 million units and accounting for about 55% of annual sales. OMDIA estimated that in 2021 the shipment growth of 4K TV will be around 10% while challenging the total shipment of 130 million units, which can account for around 60% of total annual sales revenue. Under the active promotion of both TV brand and panel industries, UHD 4K TV prices are expected to gradually lower and more friendly. As the price goes down and there is more and more high-quality content sources become available, UHD 4K TV penetration can be expected to grow for next few years. Supported by the 7-year-cycle replacement demand, LCD flat-screen TV market has steadily grown for recent years. The average size of LCD flat-screen TVs shipped in 2020 increased by 1.3 inches to 46.0 inches, and the size is expected increase to 48.7 inches in 2023.

Global TV Unit Share by Resolution Format



The Group has been engaged in the large-size TV panel business for many years, and is currently the largest supplier of display drivers for large displays in the world. We look forward to benefitting from the trends of increasing TV sizes and increasing resolution. The total numbers of display driver needed per TV panel will grow multiple times due to increasing resolutions, with revenue expected to follow.

The Group's TV SoC has already successfully been accepted and certified by international top-tier TV name brands, and has smoothly ramped up for big volume mass production. With the global demand for TV replacement with migration year by year, as well as new applications for high-end smart TVs and UHD-4K TVs, the Group has successively developed numerous new high-end products, and actively expanded its current customers to secure its future growth. The future growth can be expected. In 2020 the latest 8K products have been launched for several leading brands.

- (3) Global decline in smartphone growth: According to IDC's research report, due to the impact of the COVID-19 epidemic and the continued decline of the market (-11%) in China, global smartphone shipments in 2020 has declined by 6%, reaching 1.29 billion units. The decline of global shipment by three consecutive years indicates the slowed down annual growth momentum for global smart phone market. This is mainly due to the saturation of developed and matured smart phone markets, limited innovation, and rising unit price. The shipment of smart phones in China has been showing decline for four consecutive years due to economic slowdown.

The market predicts that mobile phone shipments in 2021 can resume its growth momentum due to the reduced impact of the COVID-19 epidemic and the increase in 5G penetration. The growth momentum of global smart phones will rely on the growths of demands in emerging markets including South Asia, South America, and East Europe. The basic cell phone replacement demands in emerging markets will support the growth of global entry-level smart phones, while the 5G upgrade will boost the growth of high-end smart phones. Cell phones brands and panel makers have aggressively promoted the

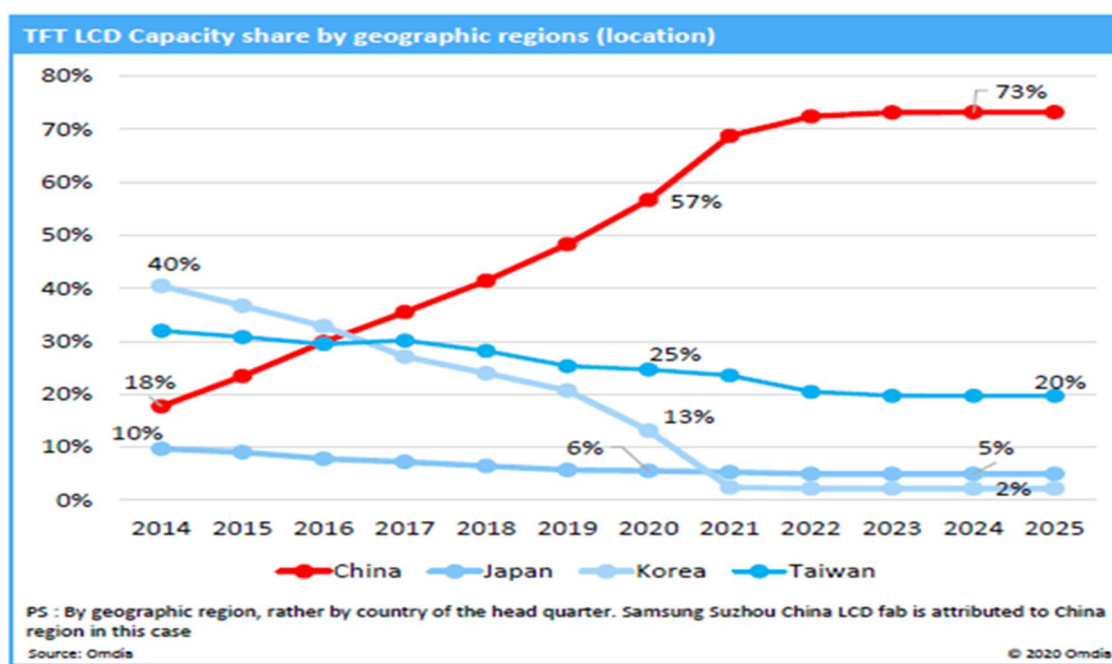
hardware upgrade and AI of smart phones so that the development of cell phone screen is heading towards high screen ratio, large size, and high resolution, thus driving the demand for high-end smart phone panel driver chips with high efficiency and low power consumption.

In terms of market share in 2020, Samsung still maintains its leading position in the world, while Huawei, affected by US sanctions, returned its short-term second place to Apple and slipped back to third. Xiaomi and Vivo surpassed OPPO and moved forward one place to fourth and fifth, respectively. Among the top five brands, only Apple and Xiaomi grew in terms of their shipments throughout the year. Apple benefited from the iPhone 12 series launched at the end of the year, while Xiaomi benefited from a strong rebound in India and an increase in market share in China.

The Group is a technology leader in the high-end display driver for small- and medium-sized smart phone displays. In recent years we have focused on the development of new high-end smartphone technologies and products by delivering high ASP and high margins product solution for many top-tier smartphone brands to avoid the price competitive entry-level products segment. We are also able to take the lead with our technology advancement from our competitors. The expected growth momentum in 2021 will come from the continuous growth of the touch and display driver integration (TDDI) in the first half of the year, and the take-off of OLED products in the second half. It is predicted that OLED TDDI and FTDI (Fingerprint, Touch, Display Driver IC) will begin to contribute to the company's revenue this year.

- (4) Increasing production capacity of China's panel makers: The production capacity of large-sized panel in China continues to grow. After passing Taiwan by the end of 2016 and passing Korea by the end of 2017, the market share of its production capacity in 2020 will be close to 50% due to the closure of factories in Korea in 2018 and 2019. In addition to being benefitted from the strong domestic demands and the policy incentives for enhancing the self-sufficiency of TV supply chain in China, the increasing influence of Chinese TV brands in terms of export sales shipment has also driven the demands for panel components, LCD driver chips, and TV system control chips.

The Group has worked and cooperated with Chinese panel suppliers for years and has established a good model of cooperation and long-term partnership with them, and also have fully grasped the product and technology roadmaps of our clients and of end users. In response to the capacity and business expansion of China panel suppliers, we will launch our new product deployment and operational activities accordingly.



- (5) The development of diverse display technologies will become a new driving force behind future growth: The development and maturation of diversified display technologies drive prices to be more affordable for consumers, and allow display related applications to become more popular and accepted. The development of better display technologies and new materials will trigger even more new applications. In the Consumer Electronics Show (CES) in early 2021, besides driverless automobiles, artificial intelligence (AI), robots, virtual reality (VR), augmented reality (AR), smart cities, there are more newly innovative technological products, such as High Tech Retailing, Sports Tech, and Digital Money, so it is considered a future star in the industry. The diverse applications of display technologies in the above innovative products, including wearable smart devices; smart mobile devices; Internet-enable automobile dashboards; large-format outdoor display panels that adapt to different lights, environments and weather; and high PPI high-resolution displays for medical applications, are injecting new vigor in the growth of display supply chains. The Group will continue developing related technologies, with a foundation in our core display technologies, in order to develop long-term R&D goals and technology roadmap.

d. Competitive edge

The Group's employs are over 2000 personnel worldwide. Our solid R&D teams have been developing audio/video and LCD display technologies for a very long time, deploying complete technologies, IPs and diverse products. We are one of the few companies in the world that can simultaneously provide specialized and comprehensive IC design solutions, from system-end to LCD display modules. We enjoy outstanding R&D and engineering talent that provides professional and experienced assistance to clients for each step of the process, from establishing IC specifications, IC development and client-end system verification, through to mass production. Combined with our

excellent supply chain management and advantageous scale of economy that boosts cost competitiveness, we are able to continue expanding our client sources and establish long-term cooperative relationships with everyone from panel factories and systems manufacturers to top-tier global consumer electronic brands. In facing the fast changes and numerous external competition and challenges in this field, the Group will continue to use our core competitive abilities to acquire professional talent from all areas and increase investment into new technologies and products, in order to maintain our competitive advantages and leadership position in comprehensive display technology solutions.

e. Advantages and disadvantages for long-term development, and response strategies

(1) Advantages

LCD panel display technologies are improving year after year. Add in the fact that all panel manufacturers are striving to optimize their processes and utilization at a better yield, TFT LCDs have already become mainstream in display screen applications, which also further drives the diversification of user-end products. The diverse applications of large-size panels continue to develop towards larger and larger sizes and higher resolutions, while small- and medium-size panels continue to move up to higher resolutions, higher PPI for diverse sizes and applications aiming high level of product differentiation. Compared to our peers in the industry, the Group has established a full line up of product lines for different display technologies of all sizes and applications. In the future, we can expect to continue benefitting from the long-term business opportunities fueled by the diversification of LCD display panel applications, the more universal adoption of high-end panel technologies, and the continued growth of market demand.

(2) Disadvantages and response strategies

The global economy in 2021 still faces numerous uncertainties and variables. Political instability around the world affects economic stability and outlook, with politics and the economy being the two major factors affecting the global consumer electronics industry. Whether the impact of the COVID-19 pandemic will gradually subside after implementing the vaccination remains to be seen; besides, the degree of impact of sanction imposed on Huawei by US also remains to be seen. In addition, high-tech industries face constant fast changes, with the global semiconductor and panel manufacturing industries experiencing a weeding out of the weak in recent years, with more consolidations and mergers. Both the competitive landscape and the players in the panel industry have experienced transformation and structural changes which resulting R&D talents fluidity. Meanwhile, Chinese panel manufacturers are empowering and rising resulting for its huge and surging domestic market demand. Global market share among global panel manufacturers are seeing huge changes. Every company needs to reinforce its adaptability, experience, competitiveness and strength, including operations

& executions, product planning, capacity and financial resources to deal with these external challenges. The Group will carefully pay attention to changes in the overall environment to quickly adjust business strategies, while continuing to acquire good management and R&D talents, in order to continue strengthening the fiscal situation and financial health, and to sustain the goal of stable and long term development and profit.

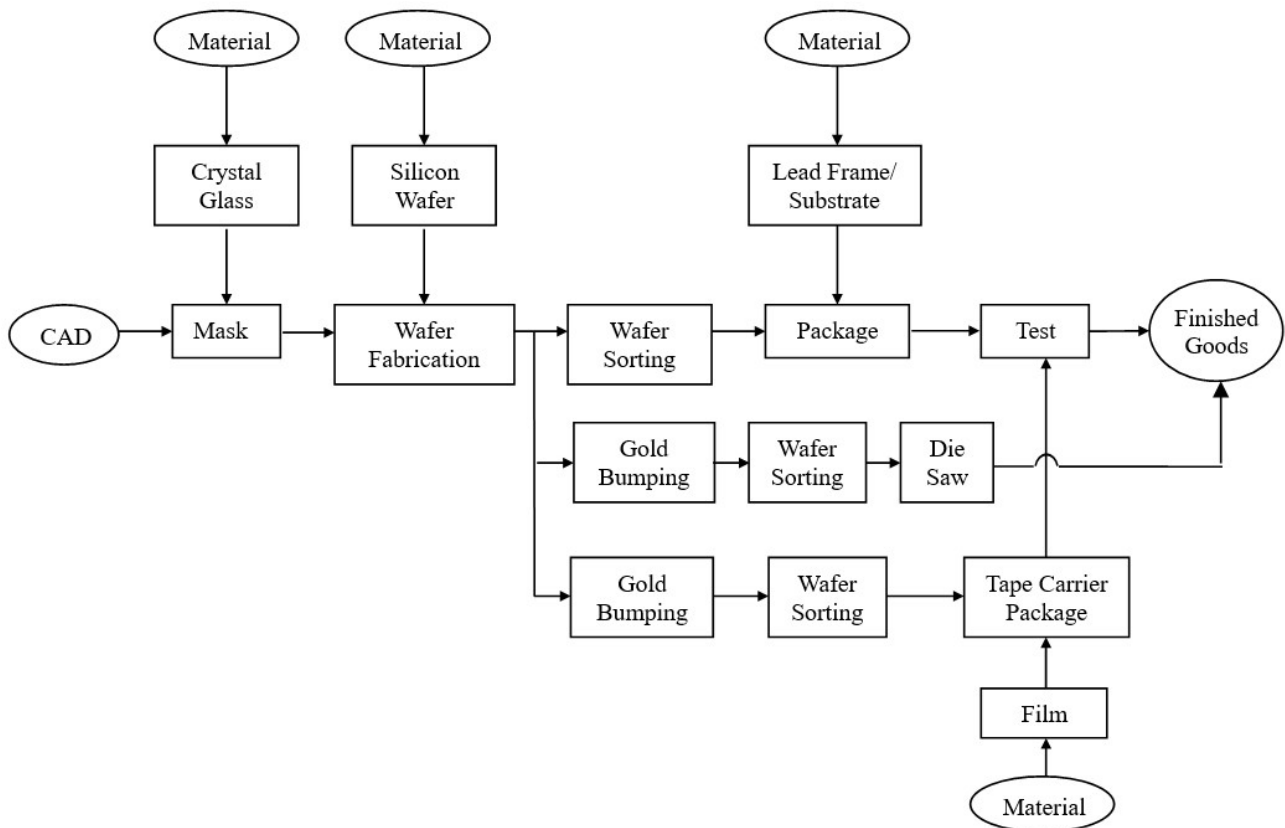
2. Applications and manufacturing process of major products

a. Application of major products

Product	Major application		
Display driver IC	Large-sized driver IC	Driving large-sized displays	TVs, notebook computers, desktop monitors
	Medium-sized driver IC	Driving medium-sized displays	Cameras, tablet PCs, automotive displays
	Small-sized driver IC	Driving small-sized displays	Smart phones, wearable products
SoC	Timing controllers	Signal processing	TVs, notebook computers, desktop monitors
	LCD monitor controllers	Controlling monitor system and signal processing	Desktop monitors
	TV controllers	Controlling TV system and signal processing	Digital TVs, smart TVs
	Power management controllers	Manage power supply for the main system	TV, Notebook, Monitor, Smart phone, wearable products.
	Digital image controllers	Digital image system control and signal processing	Mobile phone, tablet PC, camera modules, Dashcam recording, IP CAM, car backup camera modules, automotive safety assistance systems
	CMOS image sensors	Image sensor and signal processing	Multimedia and mobile phone camera modules

b. Manufacturing process of major products

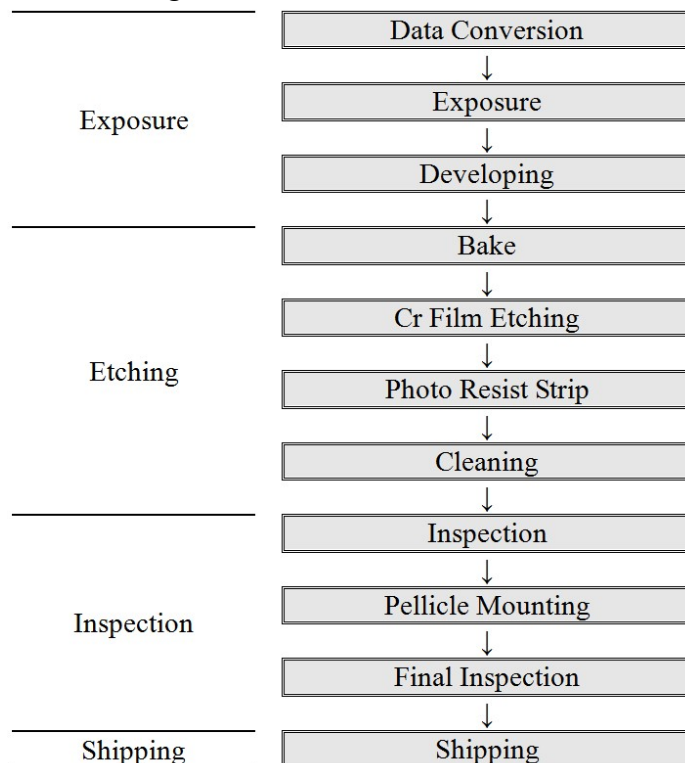
(1) Product Manufacturing Process



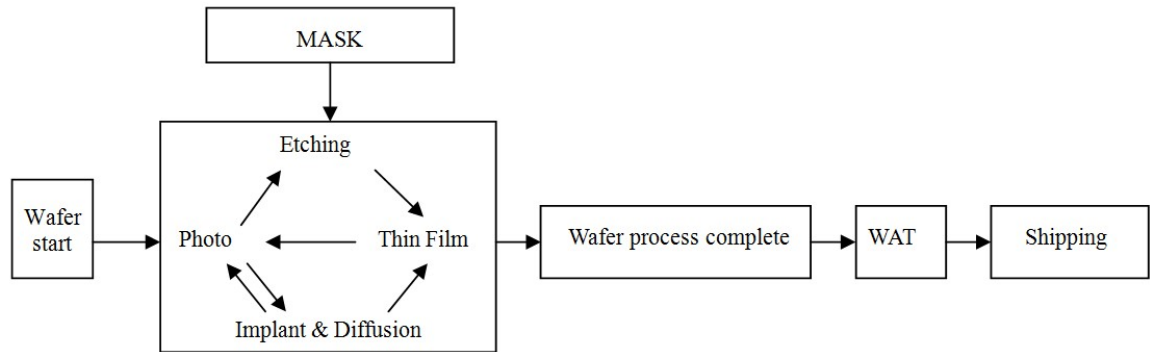
(2) Circuit Design Flow



(3) Mask Tooling Process



(4) Wafer Fabrication Flow

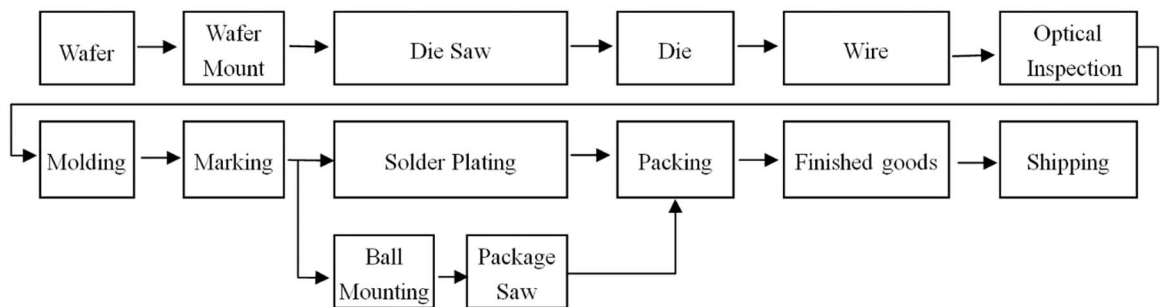


(5) Wafer Testing

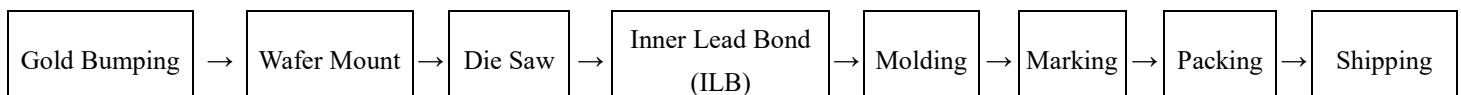
The electrical testing is carried out by testing house with the purpose to qualify the good dice and ink dice.

(6) Package

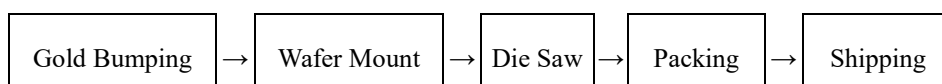
Wire bond Type Package:



Tape Carrier Package



Chip on Glass (COG) Package



3. Major supplies of materials

Wafers are our primary product materials and come mainly from United Microelectronics Corporation (UMC) and other foundry suppliers. Those suppliers maintain quite a high level in quality and process, well satisfactory to the Group in availability and punctuality.

4. Name of the major suppliers/customers over the last two years

a. Major suppliers

Unit: NT\$K

Item	2019				2018				2021 Q1			
	Name	Amount	% of Total Purchases	Relationship	Name	Amount	% of Total Purchases	Relationship	Name	Amount	% of Total Purchases	Relationship
1	UMC	10,011,182	41.39	Director of Novatek	UMC	11,731,985	35.63	Director of Novatek	UMC	3,181,094	31.78	Director of Novatek
2	HJTC	1,024,076	4.23	Other related party	HJTC	1,630,049	4.95	Other related party	HJTC	378,757	3.78	Other related party
3	A	4,817,215	19.92	None	A	5,424,217	16.48	None	A	1,297,605	12.96	None
4	B	5,184,024	21.43	None	B	8,166,452	24.81	None	B	2,749,782	27.47	None
5	C	N/A		None	C	3,293,699	10.00	None	C	1,280,874	12.79	None
	Other	3,151,106	13.03	None	Other	2,677,461	8.13	None	Other	1,122,649	11.22	None
	Total	24,187,603	100.00		Total	32,923,863	100.00		Total	10,010,761	100.00	

b. Major customers over the last two years

Unit: NT\$K

Item	2019				2020				2021 Q1			
	Name	Amount	% of Total Sales	Relationship	Name	Amount	% of Total Sales	Relationship	Name	Amount	% of Total Sales	Relationship
1	Customer A	14,829,881	23.04	None	Customer A	18,412,721	23.03	None	Customer A	5,793,612	21.97	None
2	Customer B	9,002,250	13.98	None	Customer B	12,165,652	15.21	None	Customer B	4,384,561	16.63	None
	Other	40,722,011	63.26	None	Other	49,603,102	62.04	None	Other	16,217,796	61.51	None
	Sales Returns & Allowances	(181,836)	(0.28)		Sales Returns & Allowances	(225,955)	(0.28)		Sales Returns & Allowances	(29,454)	(0.11)	
	Net Sales	64,372,306	100.00		Net Sales	79,955,520	100.00		Net Sales	26,366,515	100.00	

5. Production volume and value over the last two years

Unit: K pcs, NT\$K

Product \ Year	2019			2020		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Display driver ICs	-	1,796,292	33,026,764	-	1,810,958	35,361,910
SoC	-	527,808	10,914,031	-	728,877	15,885,338
Total	-	2,324,100	43,940,795	-	2,539,835	51,247,248

Note: The Group outsourced manufacturing procedures with wafer foundry, packing and testing, so could not provide the data of "production capacity".

6. Sales volume and value over the last two years

Unit: K pcs, NT\$K

Product \ Year	2019				2020			
	Domestic		Export		Domestic		Export	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Display driver ICs	705,380	20,214,377	1,069,824	24,878,084	745,571	24,906,277	1,077,980	28,718,453
SoC	255,394	6,027,228	291,464	13,051,485	347,762	8,046,640	368,089	17,913,123
Others	-	8,977	-	373,991	-	62,795	-	534,187
Total revenue	960,774	26,250,582	1,361,288	38,303,560	1,093,333	33,015,712	1,446,069	47,165,763

C. Employees

Year		2019	2020	As of 2021/4/30
Number of employees	R&D	2,181	2,357	2,367
	Managerial, marketing & sales	299	314	315
	Engineering	173	192	192
	Total	2,653	2,863	2,874
Average age		36.13	37.17	37.04
Average years of service		6.49	6.64	6.83
Education	Doctoral & Master	74.97%	76.07%	76.41%
	University	24.77%	23.68%	23.35%
	High school	0.26%	0.25%	0.24%
	Below high school	-	-	-

D. Environmental Protection & Expenditures

The Group is a fabless chip design house and engaged with no production activity. The production, packaging and testing are outsourced to qualified subcontractors. There were no environmental penalties in the past years.

E. Labor-Management Relations

1. The Group's employee welfare program, training and development, and retirement policy, settlement between employees and employer

The success and long term development for a fabless IC design house highly corresponds with the long term commitment from a quality R&D workforce. The Group has spared no efforts on providing a friendly working environment, fostering a pleasant relationship between the employee and employer, so as to maximize the benefits for its employee, the Group as well as the shareholders as a whole.

a. Labor Conditions

Novatek and its subsidiaries personnel systems and regulations are compliant with the provisions in Labor Standards Law, Labor Pension Act, and local regulations. Furthermore, we provide incentive programs and good compensation package to attract the industry professionals, as well as to retain our in-house talents.

b. Employee Relationship

The Group commits its best to well attend their employees. The total caring and welfare package is designed for the employees' wealth and health, and a well balance between work and life, which includes periodical health check and in house mental health counseling service. The Group also introduces the massage service by hiring people with massage expertise and eye vision difficulties. The Company also supports funds for in-house social, recreational and sport clubs, art activities and subsidies for every business departments for their own recreational activities, all with the aim to enrich employees' lives with a better satisfaction. Festival bonus and coupons, birthday presents and coupons, subsidies for childbirth, illness, injury, weddings and funerals, and scholarships for children are provided

to show the Company's dedication and care for the employees.

c. Training & development

The Group pays its full attention on the employee training and development. A complete long term human resource development plan is designed and implemented for various purposes including general, management, and professional courses and programs, which will help to inspire employees to grow, to advance and to move forward with the Group.

(1) Education and Training System

Employee learning and development are essential for corporate growth. Novatek is committed to creating a continuous and diversified learning environment and has established the required education and training standards as well as systems. It has integrated internal and external physical/digital resources to provide employees with a comprehensive and diverse learning environment, allowing the employees to keep learning and strengthen their work skills.

Stage of learning	Type of training	Training objectives/content
Newcomer blend in	New employee orientation	Help new employees understand Novatek's corporate culture, core values, quality policies, work environment, business offered and processes involved, allowing them to have a successful start and quickly blend into the company as well as the team.
Continuous learning	Learning and growth	Help employees enhance their knowledge and skills required for their daily work, enabling them to develop diverse capabilities and improve work efficiency.
	Leadership management	Assist supervisors in different levels to enrich their leadership management related skills, motivate employees and lead the team to achieve the set goals.
	Innovative technology	Based on the development of the industry, continue to provide R&D related knowledge and advanced technology trends to help the R&D team stay innovative and increase technological competitiveness.
	Language skill	Provide employees with subsidies for language learning, encouraging them to improve their foreign language skills and apply them in the workplace to enhance international competitiveness.

(2) Talent Promotion and Development

Through well-planned training programs and performance evaluation processes, appropriate candidates for promotion or cadres will be identified. To enable outstanding

talents to have better career development within the company and take on more important responsibilities, Novatek conducts the "cadre training program" regularly, which consists of a series of challenging training courses focusing on the management and leadership thinking skills required for cadres, preparing them to move forward in their career development and achieve higher goals. Regarding the promotion system, Novatek has formulated the "Regulation for Job Level, Position and Title" and the "Regulation for Promotion". Based on the performance and the experience of the employees, the department head can submit the qualified promotion for approval by the President. In addition, for outstanding talents with excellent performance and management skills, management positions can be assigned depending on the needs of the company, allowing all employees to contribute their talents and strengths to the company.

d. Retirement system and implementation

Novatek and its domestic subsidiaries' retirement policy are in accordance with the provisions in Labor Standards Law and Labor Pension Act. Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts. Pension benefits for employees of the overseas subsidiaries are provided in accordance with the respective local regulations.

e. Working environment and protection of employee safety

We have implemented the ISO 14001 Environmental Management System, the ISO 45001 Occupational Safety and Health Management System and the TOSHMS Taiwan Occupational Safety and Health Management System, by which to ensure the practice of related environmental safety and health policies, of regular inspection for office operating environment, of plant disinfection to prevent mosquito vector, of inspection and reporting for public facility safety, of maintenance and reporting for fire safety equipment, of regular maintenance and testing for high and low voltage electrical equipment, of automatic inspection and maintenance of factory facilities and other workplace measures, and of other relevant work environment policies to ensure we can provide our staff a safety and health working environment. Besides, we periodically provide some environmental safety and health related course and health promotion activities to ensure the healthiness of our employees physically and mentally.

In 2020, fire safety training for employees, occupational safety and health training for new employees, occupational safety and health training for supervisors, AEO emergency response education and training, on-the-job training for fire-fighting management personnel, training for energy management personnel, and training for waste handling technicians were completed.

A classification system for health management was established to sort and manage the health check-up reports of all employees, achieving the goal of early detection and early treatment,

and reducing the occurrences of disease as well as the risk of the company. The project of "Health Trilogy for People Suffering from Ingestion" was launched and seminars on "Solution for People Suffering from Ingestion, Health Tips ~ Say Goodbye to Skinny Fat, Nutritious and Delicious Salad-in-a-jar DIY" were organized. With the help of the nutritionists from the company's catering service provider and the use of seasonal ingredients, "Special meal for people suffering from ingestion" are provided bi-monthly. Moreover, theme-based medical column is prepared monthly through the help of the nurses. In addition to organizing practical and diverse health promotion seminars, other activities such as influenza vaccination and blood donation were carried out. In addition, due the COVID-19 epidemic in 2020, various management mechanisms (medical supply preparation, employee health monitoring and management, self-health declaration (monitoring) and management system, immediate grasp and announcement of disease control related information), control measures, and the required environment as well as equipment disinfection operations have been completed to establish protection against the epidemic, protecting the health of the employees. Due to the epidemic in 2020, the scheduled annual activities were slightly adjusted. The adjustments are as follows: The supply of the bi-monthly "Special meal for people suffering from ingestion" prepared by the nutritionists from the company's catering service provider using seasonal ingredients was suspended in the first half of 2020 due to the epidemic. The supply of the special meal resumed in August 2020. The seminar "Solution for People Suffering from Ingestion" was cancelled due to epidemic.

The Group will allow our employees to understand environmental safety and health regulations, policies, and the Company's environmental safety and health commitment, the environmental impacts and safety and health risks of various activities in the Company, and emergency response plans. This is how we can implement the objectives of environment, safety, and health while being in compliance with the environmental safety and health manual.

Administrative Division is in charge of the survey and analysis of various environmental safety and health training courses and formulation of training plans. All departments should arrange safety and health educational training according to the training plan via physical or online learning courses. The personnel of contractors will be requested to submit training data via the "Contractor Construction Safety and Health Management Procedures" in order to ensure personal safety and health within the Company.

Implementation of environmental safety and health related educational training in 2020:

Name of training	No. of session	No. of participants	Training date
Fire safety training and occupational safety and health training for new employees (including the on-site personnel of the contractor)	1	144	2/14

Name of training	No. of session	No. of participants	Training date
On-the-job training for fire-fighting management personnel	1	1	5/21-5/22
Class A occupational safety and health on-the-job training for supervisors of related businesses	2	2	7/9~7/27 9/9~9/25
2020 Annual training for civil defense corps	1	18	9/17
Emergency response education and training for AEO (Authorized Economic Operator)	1	122	10/23
2020 Annual educational and training for "Energy Management Personnel Training Course C"	1	1	10/27、10/28
On-the-job training of hazard prevention for high-risk operations (including annual maintenance and limited space) and the use of virtual reality (VR) tools to strengthen the public awareness on chemical hazards	1	1	11/13
Training for waste handling technicians	1	1	11/1~11/28

f. Negotiations settled between employees and management: None.

2. Losses incurred by labor disputes in recent years up to publication, and potential disputes and appropriate measures

a. Losses incurred by labor disputes in recent years up to publication: None.

b. Potential disputes and appropriate measures:

The Group strives to create a friendly and safe working environment, and to provide employees with favorable workplace conditions, well-established development program to retain the talent and experience. The Group assured of no such labor disputes in the past and is confident that there will be no labor dispute in the future.

F. Important Contracts

Contract Type	Contractor	Term of agreement	Summary	Restriction
Land Lease	Hsinchu Science Park Administration	04/2008~12/2027	Build factory, laboratory or warehouse, loading and unloading, packaging and repair worksites	Restricted Use
License Agreement	Faraday Technology Corporation	06/2006~06/2021	IP authorization	Security regulations

VI. Financial Highlights

A. Condensed Balance Sheet and Comprehensive Income Statement

1. Condensed Balance Sheet

a. Condensed Balance Sheet - consolidated

Unit: NT\$K

Item	Year	Consolidated financial data (Note 1)					
		2016	2017	2018	2019	2020	As of March 31, 2021
Current assets		\$35,363,210	\$34,454,129	\$41,030,998	\$38,002,356	\$44,950,572	\$55,347,226
Property, plant and equipment		2,002,631	1,962,932	2,611,394	3,838,703	6,577,261	6,773,560
Intangible assets		2,261,544	2,720,228	2,676,278	2,695,345	2,545,172	2,494,683
Other assets		1,917,220	1,738,009	1,750,953	2,338,830	4,027,684	4,307,609
Total assets		41,544,605	40,875,298	48,069,623	46,875,234	58,100,689	68,923,078
Current liabilities	Cum-dividend	13,167,980	11,840,797	16,964,632	12,814,489	17,462,656	22,204,204
	Ex-dividend	17,427,560	16,161,229	22,319,533	19,203,860	(Note 2)	(Note 2)
Non-current liabilities		413,532	464,520	787,482	982,425	694,830	699,147
Total liabilities	Cum-dividend	13,581,512	12,305,317	17,752,114	13,796,914	18,157,486	22,903,351
	Ex-dividend	17,841,092	16,625,749	23,107,015	20,186,285	(Note 2)	(Note 2)
Shareholders' equity attributable to shareholders of the parent		27,963,093	28,569,981	30,317,509	33,078,320	39,943,203	46,019,727
Capital stock		6,085,115	6,085,115	6,085,115	6,085,115	6,085,115	6,085,115
Additional paid-in capital	Cum-dividend	3,287,822	3,287,822	3,287,822	3,287,822	2,375,054	2,375,054
	Ex-dividend	3,287,822	3,287,822	3,287,822	2,375,054	(Note 2)	(Note 2)
Retained earnings	Cum-dividend	18,525,888	19,286,690	21,409,023	23,954,012	30,284,139	36,159,353
	Ex-dividend	14,266,308	14,966,258	16,054,122	18,477,409	(Note 2)	(Note 2)
Others		64,268	(89,646)	(464,451)	(248,629)	1,198,895	1,400,205
Non-controlling Interests		-	-	-	-	-	-
Total shareholders' equity	Cum-dividend	27,963,093	28,569,981	30,317,509	33,078,320	39,943,203	46,019,727
	Ex-dividend	23,703,513	24,249,549	24,962,608	26,688,949	(Note 2)	(Note 2)

Note 1: Consolidated financial data of 2016~ 2020 are audited, while Q1 2021 is reviewed by CPA.

Note 2: The distribution of 2020 retained earnings is not yet resolved.

b. Condensed Balance Sheet – Parent company only

Unit: NT\$K

Item \ Year		Parent company only financial data (Note 1)				
		2016	2017	2018	2019	2020
Current assets		\$34,634,993	\$33,902,561	\$40,553,379	\$37,260,771	\$44,137,579
Investments accounted for using the equity method		1,453,800	1,195,729	1,091,950	1,367,717	1,444,792
Property, plant and equipment		1,340,090	1,341,253	2,013,755	3,295,648	6,044,344
Intangible assets		2,253,561	2,713,898	2,671,567	2,692,279	2,542,806
Other assets		1,782,877	1,652,193	1,649,785	2,124,621	3,776,936
Total assets		41,465,321	40,805,634	47,980,436	46,741,036	57,946,457
Current liabilities	Cum-dividend	13,088,696	11,771,133	16,875,445	12,691,856	17,349,769
	Ex-dividend	17,348,276	16,091,565	22,230,346	19,081,227	(Note 2)
Non-current liabilities		413,532	464,520	787,482	970,860	653,485
Total liabilities	Cum-dividend	13,502,228	12,235,653	17,662,927	13,662,716	18,003,254
	Ex-dividend	17,761,808	16,556,085	23,017,828	20,052,087	(Note 2)
Capital stock		6,085,115	6,085,115	6,085,115	6,085,115	6,085,115
Additional paid-in capital	Cum-dividend	3,287,822	3,287,822	3,287,822	3,287,822	2,375,054
	Ex-dividend	3,287,822	3,287,822	3,287,822	2,375,054	(Note 2)
Retained earnings	Cum-dividend	18,525,888	19,286,690	21,409,023	23,954,012	30,284,139
	Ex-dividend	14,266,308	14,966,258	16,054,122	18,477,409	(Note 2)
Others		64,268	(89,646)	(464,451)	(248,629)	1,198,895
Total shareholders' equity	Cum-dividend	27,963,093	28,569,981	30,317,509	33,078,320	39,943,203
	Ex-dividend	23,703,513	24,249,549	24,962,608	26,688,949	(Note 2)

Note 1: Parent company only financial data of 2016 ~ 2020 are audited by CPA.

Note 2: The distribution of 2020 retained earnings is not yet resolved.

2. Condensed Comprehensive Income Statement

a. Condensed Comprehensive Income Statement - Consolidated

Unit: NT\$K

Item \ Year		Consolidated financial data (Note 1)					
		2016	2017	2018	2019	2020	As of March 31, 2021
Sales revenue		\$45,650,879	\$47,073,692	\$54,833,856	\$64,372,306	\$79,955,520	\$26,366,515
Gross profit		12,945,619	13,555,261	17,015,433	20,614,387	27,957,707	11,506,568
Operating Income		5,643,857	5,755,199	7,615,163	9,857,421	14,777,598	7,210,532
Non-operating income and expenses		141,360	181,500	290,436	(42,356)	(228,624)	75,690
Income before Income Tax		5,785,217	5,936,699	7,905,599	9,815,065	14,548,974	7,286,222
Net income from operations of continued segments		5,004,360	5,024,088	6,390,630	7,927,409	11,817,239	5,875,214
Net income		5,004,360	5,024,088	6,390,630	7,927,409	11,817,239	5,875,214
Other comprehensive income		(82,488)	(157,620)	(218,439)	188,303	1,437,015	201,310
Comprehensive income		4,921,872	4,866,468	6,172,191	8,115,712	13,254,254	6,076,524
Net income attributable to shareholders of the parent		5,004,360	5,024,088	6,390,630	7,927,409	11,817,239	5,875,214
Net income attributable to non-controlling interests		-	-	-	-	-	-
Comprehensive income attributable to shareholders of the parent		4,921,872	4,866,468	6,172,191	8,115,712	13,254,254	6,076,524
Comprehensive income attributable to non-controlling interests		-	-	-	-	-	-
Earnings per share (NT\$)	Before retroactive adjustment	8.22	8.26	10.50	13.03	19.42	9.66
	After retroactive adjustment	8.22	8.26	10.50	13.03	(Note 2)	(Note 2)

Note 1: Consolidated financial data of 2016~ 2020 are audited, while Q1 2021 is reviewed by CPA.

Note 2: The distribution of 2020 retained earnings is not yet resolved.

b. Condensed Comprehensive Income Statement - Parent company only

Unit: NT\$K

Year		Parent company only financial data (Note 1)				
		2016	2017	2018	2019	2020
Sales revenue		\$45,615,502	\$47,049,099	\$54,778,874	\$64,326,485	\$79,867,485
Gross profit		12,936,464	13,534,301	16,950,215	20,549,910	27,920,134
Operating Income		6,219,593	6,348,048	8,245,432	10,546,316	15,428,104
Non-operating income and expenses		(436,233)	(416,960)	(343,802)	(736,907)	(890,865)
Income before Income Tax		5,783,360	5,931,088	7,901,630	9,809,409	14,537,239
Net income from operations of continued segments		5,004,360	5,024,088	6,390,630	7,927,409	11,817,239
Net income		5,004,360	5,024,088	6,390,630	7,927,409	11,817,239
Other comprehensive income		(82,488)	(157,620)	(218,439)	188,303	1,437,015
Comprehensive income		4,921,872	4,866,468	6,172,191	8,115,712	13,254,254
Earnings per share (NT\$)	Before retroactive adjustment	8.22	8.26	10.50	13.03	19.42
	After retroactive adjustment	8.22	8.26	10.50	13.03	(Note 2)

Note 1: Parent company only financial data of 2016 ~ 2020 are audited by CPA.

Note 2: The distribution of 2020 retained earnings is not yet resolved.

3. Auditors and auditors' opinions

Year	Name of CPA	Opinion
2016	Lin Tu, Eric Kuo	Unqualified opinion
2017	Lin Tu, Eric Kuo	Unqualified opinion
2018	Hans Chen, Eric Kuo	Unqualified opinion
2019	Hans Chen, Eric Kuo	Unqualified opinion
2020	Hans Chen, Eric Kuo	Unqualified opinion

B. Financial Analysis over the Last Five Years

Item \ Year		2016	2016 consol.	2017	2017 consol.	2018	2018 consol.	2019	2019 consol.	2020	2020 consol.	As of March 31, 2021
Financial Structure	Liabilities to assets ratio	32.56	32.69	29.98	30.10	36.81	36.93	29.23	29.43	31.06	31.25	33.23
	Long-term capital to Property, plant and equipment ratio	2,117.51	1,416.96	2,164.72	1,479.13	1,544.62	1,191.12	1,033.15	887.29	671.64	617.85	689.72
Ability to Repay Debts	Current ratio	264.61	268.55	288.01	290.97	240.30	241.86	293.58	296.55	254.39	257.40	249.26
	Quick ratio	227.57	231.61	244.07	247.23	198.17	199.90	242.46	245.86	206.13	209.41	204.51
	Debts services coverage ratio	274.69	274.77	123.40	123.52	136.32	136.39	219.79	210.17	3,155.09	2,139.61	3,609.82
Utility	Account receivable turnover (times)	3.91	3.95	4.02	4.06	4.25	4.28	4.60	4.62	5.66	5.69	6.81
	A/C turnover in days (days)	93	92	90	89	85	85	79	79	64	64	53
	Inventory turnover (times)	5.88	5.88	5.63	5.63	5.19	5.19	5.44	5.44	5.90	5.90	5.47
	Account payable turnover (times)	5.21	5.22	4.93	4.93	4.54	4.53	4.88	4.88	5.96	5.96	5.66
	Days' sales in inventory	62	62	64	64	70	70	67	67	61	61	66
	Property, plant and equipment turnover (times)	33.84	22.57	35.09	23.74	32.65	23.97	24.23	19.96	17.10	15.35	15.79
	Total assets turnover (times)	1.10	1.10	1.14	1.14	1.23	1.23	1.35	1.35	1.52	1.52	1.66
Profitability	Ratio of return on total assets (%)	12.17	12.15	12.31	12.28	14.50	14.47	16.81	16.77	22.58	22.52	9.25
	Ratio of return on Shareholders' Equity (%)	17.72	17.72	17.77	17.77	21.70	21.70	25.00	25.00	32.36	32.36	13.66
	Ratio to paid-in capital on income before tax	95.04	95.07	97.46	97.56	129.85	129.91	161.20	161.29	238.89	239.09	119.73
	Net Income Margin (%)	10.97	10.96	10.68	10.67	11.67	11.65	12.33	12.32	14.80	14.78	22.28
	Earnings per share (NT\$)	8.22	8.22	8.26	8.26	10.50	10.50	13.03	13.03	19.42	19.42	9.66
Cash Flows	Cash flow ratio (%)	57.76	53.53	41.87	37.01	51.22	47.22	61.43	55.77	91.70	88.07	22.44
	Cash flow adequacy ratio (%)	111.55	114.22	104.19	105.56	103.57	104.24	102.53	103.51	105.65	106.91	115.64
	Cash re-investment ratio (%)	7.00	5.26	2.18	0.39	13.18	11.19	6.78	4.94	22.10	20.74	10.07
Leverage	Operating leverage	5.14	5.68	5.19	5.73	4.72	5.12	4.32	4.62	3.83	4.00	2.77
	Financial leverage	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Explanation for financial ratios that have fluctuated over 20% over the last two years:

1. Decrease in long-term capital to property, plant and equipment ratio: due to the increase of property, plant and equipment.
2. Increase in debts services coverage ratio: due to the increase of net income and the decrease of short-term loans.
3. Increase in account receivable turnover: due to the increase of revenue and the decrease of account receivables days.
4. Increase in account payable turnover: due to the increase of purchases, resulting from the increase of revenue.
5. Decrease in property, plant and equipment turnover: due to the increase of property, plant and equipment.
6. Increase in ratio of return on total assets: due to the increase of net income.
7. Increase in ratio of return on shareholders' equity: due to the increase of net income.
8. Increase in ratio to paid-in capital on income before tax: due to the increase of net income.
9. Increase in net income margin: due to annual revenue showing an increase of 24.2%, the gross margin rising 2.95 percent point, and net income showing an increase of 49.1%.
10. Increase in earnings per share: due to the increase net income.
11. Increase in cash flow ratio: due to the increase net income.
12. Increase in cash re-investment ratio: due to the increase net income.

Note 1: The financial data of 2016~2020 are audited, while Q1 2021 is review by CPA.

Note 2: Financial analysis equations

1. Financial structure

- (1) Ratio of liabilities to assets = Total liabilities / Total assets
- (2) Ratio of long-term assets to Property, plant and equipment = (Net Shareholders' equity + Long-term liabilities) / Net fixed assets

2. Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – inventory – prepaid expense) / Current liabilities
- (3) Times interest earned ratio = Net income before income tax and interest expense / Interest expense

3. Operating ability

- (1) Account receivable turnover (times) = Net sales / Average accounts receivable and notes receivable (net)
- (2) Days sales in account receivable = 365/Account receivable turnover (times)
- (3) Inventory turnover (times) = Cost of goods sold / Average inventory
- (4) Accounts payable turnover (times) = Purchase / Average accounts payable
- (5) Average days in sales = 365/Inventory turnover (times)
- (6) Property, plant and equipment turnover (times) = Net sales / Average fixed assets (net)
- (7) Total assets turnover (times) = Net sales / Average assets

4. Profitability

- (1) Ratio of return on total assets = [net income + interest expense (1-tax rate)/Average assets]
- (2) Ratio of return on Shareholders' Equity = Net income / Average Shareholders' Equity (net)
- (3) Profit ratio = Net income / Net sales
- (4) Earnings per share = (Net income – preferred stock dividend) / Weighted average stock issued

5. Cash flow

- (1) Cash flow ratio = Net cash flow from operating activity / Current liabilities
- (2) Cash flow adequacy ratio = Net cash flow from operating activities in five years / (Capital expenditure + inventory increase + cash dividend) in five years
- (3) Cash reinvestment ratio = (Net cash flow from operating activity – cash dividend) / (Gross fixed assets + Long-term investment + Other assets + Operating fund)

6. Leverage

- (1) Operation leverage = (Net operating income – operating cost and expense) / Operating income
- (2) Financial ratio = Operating income / (Operating income – Interest expense)

C. Audit Committee's Report

Audit Committee's Report of Novatek Microelectronics Corp.

We have examined the financial statements of 2020 prepared and submitted by the Board of Directors and audited by Ernst & Young, who consider the aforementioned reports and statements to present fairly the financial position, financial performance and cash flows of Novatek Microelectronics Corp. In our opinion, the financial statements are in conformance with relevant regulations and with an audit report issued in accordance with Securities and Exchange Act §14-4 and Company Law Article 219.

To Novatek Microelectronics Corp

Novatek Microelectronics Corp.

Independent Director: Chen-en, Ko

Independent Director: Max Fang

Independent Director: Jack Tsai

April 30, 2021

D. Financial Statements

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Financial Statements for the Years Ended December 31, 2020 and 2019 with Independent Auditors' Report

Independent Auditors' Report

The Board of Director and Shareholders
Novatek Microelectronics Corp.

Opinion

We have audited the accompanying consolidated balance sheets of Novatek Microelectronics Corp. and its subsidiaries as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2020 and 2019, and notes to the consolidated financial statements, including the summary of significant accounting policies (together referred as “the consolidated financial statements”).

In our opinion, based on our audits and the reports of other auditors (please refer to the section “Other Matter — Making Reference to the Audits of Component Auditors” of our audit report) the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Novatek Microelectronics Corp. and its subsidiaries as of December 31, 2020 and 2019, and their consolidated financial performance and cash flows for the years ended December 31, 2020 and 2019, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became by 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 Novatek Microelectronics Corp. and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, 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 2020 consolidated financial statements. 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.

Revenue recognition

Novatek Microelectronics Corp. and its subsidiaries are mainly engaged in manufacturing and sales of integrated circuit products, and recognized NT\$79,955,520 thousand as net sales for the year ended December 31, 2020. Since the trading terms of the sales orders varied with demand, the management's judgement is exercised to determine when the performance obligations were satisfied. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal controls within the sales cycle which are related to the timing of revenue recognition; performing test of details on selected samples and reviewing the significant terms of sales agreements and tracing to relevant documentation of transactions; performing confirmation procedures on key terms of sales agreements on samples; performing cut-off procedures on selected samples for a period before and after the reporting date, tracing to relevant documentation to verify the appropriateness of the timing of revenue recognition, and reviewing significant sales reversals in subsequent period.

We also considered the appropriateness of the disclosures of sales of goods. Please refer to Note 4 and 6 in notes to consolidated financial statements.

Valuation for inventories

Novatek Microelectronics Corp. and its subsidiaries recognized NT\$8,156,212 thousand as net inventories as of December 31, 2020, and the amount was significant to consolidated financial statements. Novatek Microelectronics Corp. and its subsidiaries operate in an industry where technologies are upgrading rapidly and thereby their inventories become obsolete speedily. Novatek Microelectronics Corp. and its subsidiaries' policy of provision for inventory is based on those inventories aged over a certain period of time and identified as obsolete or damaged. The amount of inventories is material, the types of inventories vary and the estimation of net realizable value for individually obsolete or damaged inventories is subject to management's judgment. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) evaluating the appropriate accounting policies of slow-moving and obsolete inventories; selecting samples to evaluate and test the design and operating effectiveness of internal controls of the valuation of inventories by management; selecting samples to test the correctness of calculating inventory aging and recalculating the amount of inventory allowance; selecting samples to evaluate and test the net realizable value used by management; evaluating management's inventory count plan and selecting important inventory locations to observe physical inventory count for confirming inventory quantity and status.

We also assessed the adequacy of disclosures of inventories. Please refer to Notes 5 and 6 in notes to consolidated financial statements.

Other Matter — Making Reference to the Audits of Component Auditors

We did not audit the consolidated financial statements of certain subsidiaries, which statements reflect total assets of NT\$1,017,061 thousand and NT\$764,452 thousand, constituting 1.75% and 1.63% of consolidated total assets as of December 31, 2020 and 2019, respectively, and total operating revenues of NT\$9,411,359 thousand and NT\$4,999,200 thousand, constituting 11.77% and 7.77% of consolidated operating revenues for the years ended December 31, 2020 and 2019, respectively. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the audit reports of the other auditors.

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 requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by 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 ability to continue as a going concern of Novatek Microelectronics Corp. and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Novatek Microelectronics Corp. and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of Novatek Microelectronics Corp. and its subsidiaries.

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

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we 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 internal control of Novatek Microelectronics Corp. and its subsidiaries.
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 ability to continue as a going concern of Novatek Microelectronics Corp. and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Novatek Microelectronics Corp. and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Novatek Microelectronics Corp. and its subsidiaries 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 2020 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other

We have audited and expressed an unqualified opinion including a paragraph of Other Matter on the separate financial statements of Novatek Microelectronics Corp. as of and for the years ended December 31, 2020 and 2019.

/s/Chen, Chih-Chung

/s/Kuo, Shao-Pin

Ernst & Young, Taiwan
February 25, 2021

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations 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 accepted and applied in the Republic of China.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

As of December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2020		December 31, 2019		Liabilities and Equity	Notes	December 31, 2020		December 31, 2019	
Current assets						Current liabilities					
Cash and cash equivalents	4, 6(1)	\$ 22,875,307	39.37	\$ 17,913,796	38.21	Contract liabilities, current	6(13)	\$ 330,647	0.57	\$ 41,262	0.09
Trade receivables, net	4, 6(2), 6(14)	13,373,468	23.02	13,340,979	28.46	Trade payables		7,528,440	12.96	5,799,097	12.37
Other receivables	6(3)	320,047	0.55	251,806	0.54	Trade payables to related parties	7	2,195,847	3.78	1,903,191	4.06
Inventories, net	4, 6(4)	8,156,212	14.04	6,262,571	13.36	Other payables		5,348,267	9.20	3,897,556	8.31
Prepayments		225,538	0.39	233,204	0.50	Current income tax liabilities	4, 6(19)	1,870,383	3.22	966,071	2.06
Total current assets		44,950,572	77.37	38,002,356	81.07	Lease liabilities, current	4, 6(15)	53,318	0.09	54,266	0.12
						Other current liabilities	4, 6(10)	135,754	0.23	153,046	0.33
						Total current liabilities		17,462,656	30.05	12,814,489	27.34
Non-current assets						Non-current liabilities					
Financial assets measured at fair value through other comprehensive income, non-current	4, 6(5)	3,061,127	5.27	1,607,542	3.43	Deferred income tax liabilities	4, 6(19)	313,239	0.54	305,323	0.65
Property, plant and equipment	4, 6(6)	6,577,261	11.32	3,838,703	8.19	Lease liabilities, non-current	4, 6(15)	213,731	0.37	215,108	0.46
Right-of-use assets	4, 6(15)	262,052	0.45	266,231	0.57	Net defined benefit liabilities, non-current	4, 6(11), 6(16)	167,860	0.29	162,194	0.34
Intangible assets	4, 6(7), 6(9)	2,545,172	4.38	2,695,345	5.75	Deposits received		-	-	299,800	0.64
Deferred income tax assets	4, 6(19)	546,741	0.94	431,479	0.92	Total non-current liabilities		694,830	1.20	982,425	2.09
Other financial assets, non-current	4, 8	11,300	0.02	6,500	0.01						
Other assets, non-current	6(8)	146,464	0.25	27,078	0.06	Total liabilities		18,157,486	31.25	13,796,914	29.43
Total non-current assets		13,150,117	22.63	8,872,878	18.93						
						Equity					
						Share capital	6(12)				
						Common stock		6,085,115	10.47	6,085,115	12.98
						Capital surplus	6(12)	2,375,054	4.09	3,287,822	7.01
						Retained earnings	6(12)				
						Legal reserve		9,228,315	15.89	8,435,574	18.00
						Special reserve		248,629	0.43	464,450	0.99
						Undistributed earnings		20,807,195	35.81	15,053,988	32.12
						Other equity		1,198,895	2.06	(248,629)	(0.53)
						Total equity		39,943,203	68.75	33,078,320	70.57
Total assets		<u>\$ 58,100,689</u>	<u>100.00</u>	<u>\$ 46,875,234</u>	<u>100.00</u>	Total liabilities and equity		<u>\$ 58,100,689</u>	<u>100.00</u>	<u>\$ 46,875,234</u>	<u>100.00</u>

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Consolidated Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For The Years Ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

Description	Notes	For the years ended December 31,			
		2020		2019	
Operating revenues	4, 6(13)	\$ 79,955,520	100.00	\$ 64,372,306	100.00
Operating costs	6(4), 6(11), 6(16), 7	(51,997,813)	(65.03)	(43,757,919)	(67.98)
Gross profit		<u>27,957,707</u>	<u>34.97</u>	<u>20,614,387</u>	<u>32.02</u>
Operating expenses	6(7), 6(11), 6(14), 6(15), 6(16), 7				
Selling expenses		(361,115)	(0.45)	(334,176)	(0.52)
Administrative expenses		(1,744,691)	(2.18)	(1,521,188)	(2.36)
Research and development expenses		(10,994,303)	(13.75)	(8,901,602)	(13.83)
Expected credit losses		(80,000)	(0.10)	-	-
Total operating expenses		<u>(13,180,109)</u>	<u>(16.48)</u>	<u>(10,756,966)</u>	<u>(16.71)</u>
Operating income		<u>14,777,598</u>	<u>18.49</u>	<u>9,857,421</u>	<u>15.31</u>
Non-operating income and expenses	6(17)				
Interest income		102,472	0.13	125,252	0.19
Other income		46,174	0.05	50,242	0.08
Other gains and losses	4	(370,467)	(0.46)	(170,928)	(0.26)
Financial costs		(6,803)	(0.01)	(46,922)	(0.07)
Total non-operating income and expenses		<u>(228,624)</u>	<u>(0.29)</u>	<u>(42,356)</u>	<u>(0.06)</u>
Income before income tax		14,548,974	18.20	9,815,065	15.25
Income tax expense	4, 6(19)	<u>(2,731,735)</u>	<u>(3.42)</u>	<u>(1,887,656)</u>	<u>(2.93)</u>
Net income		<u>11,817,239</u>	<u>14.78</u>	<u>7,927,409</u>	<u>12.32</u>
Other comprehensive income	6(18)				
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans	6(11)	(10,509)	(0.01)	(27,519)	(0.04)
Unrealized gains from equity instruments investments measured at fair value through other comprehensive income		1,443,250	1.81	245,865	0.38
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		4,274	-	(30,043)	(0.05)
Other comprehensive income (net of income tax)		<u>1,437,015</u>	<u>1.80</u>	<u>188,303</u>	<u>0.29</u>
Total comprehensive income		<u>\$ 13,254,254</u>	<u>16.58</u>	<u>\$ 8,115,712</u>	<u>12.61</u>
Net income attributable to :					
Shareholders of the parent		\$ 11,817,239		\$ 7,927,409	
Non-controlling interests		<u>-</u>		<u>-</u>	
		<u>\$ 11,817,239</u>		<u>\$ 7,927,409</u>	
Comprehensive income attributable to :					
Shareholders of the parent		\$ 13,254,254		\$ 8,115,712	
Non-controlling interests		<u>-</u>		<u>-</u>	
		<u>\$ 13,254,254</u>		<u>\$ 8,115,712</u>	
Earnings per share	6(20)				
Basic earnings per share (in New Taiwan Dollars)		<u>\$ 19.42</u>		<u>\$ 13.03</u>	
Diluted earnings per share (in New Taiwan Dollars)		<u>\$ 19.40</u>		<u>\$ 13.02</u>	

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Consolidated Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For The Years Ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Description	Equity attributable to shareholders of the parent								Total equity
	Common stock	Capital surplus	Retained earnings			Other adjustments		Total	
			Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income		
Balance as of January 1, 2019	\$ 6,085,115	\$ 3,287,822	\$ 7,796,511	\$ 89,646	\$ 13,522,866	\$ (100,964)	\$ (363,487)	\$ 30,317,509	\$ 30,317,509
Appropriation and distribution of 2018 earnings:									
Legal reserve	-	-	639,063	-	(639,063)	-	-	-	-
Special reserve	-	-	-	374,804	(374,804)	-	-	-	-
Cash dividends	-	-	-	-	(5,354,901)	-	-	(5,354,901)	(5,354,901)
Net income for the year ended December 31, 2019	-	-	-	-	7,927,409	-	-	7,927,409	7,927,409
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	(27,519)	(30,043)	245,865	188,303	188,303
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	7,899,890	(30,043)	245,865	8,115,712	8,115,712
Balance as of December 31, 2019	\$ 6,085,115	\$ 3,287,822	\$ 8,435,574	\$ 464,450	\$ 15,053,988	\$ (131,007)	\$ (117,622)	\$ 33,078,320	\$ 33,078,320
Balance as of January 1, 2020	\$ 6,085,115	\$ 3,287,822	\$ 8,435,574	\$ 464,450	\$ 15,053,988	\$ (131,007)	\$ (117,622)	\$ 33,078,320	\$ 33,078,320
Appropriation and distribution of 2019 earnings:									
Legal reserve	-	-	792,741	-	(792,741)	-	-	-	-
Special reserve	-	-	-	(215,821)	215,821	-	-	-	-
Cash dividends	-	-	-	-	(5,476,603)	-	-	(5,476,603)	(5,476,603)
Cash dividends distributed from capital surplus	-	(912,768)	-	-	-	-	-	(912,768)	(912,768)
Net income for the year ended December 31, 2020	-	-	-	-	11,817,239	-	-	11,817,239	11,817,239
Other comprehensive income for the year ended December 31, 2020	-	-	-	-	(10,509)	4,274	1,443,250	1,437,015	1,437,015
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	11,806,730	4,274	1,443,250	13,254,254	13,254,254
Balance as of December 31, 2020	\$ 6,085,115	\$ 2,375,054	\$ 9,228,315	\$ 248,629	\$ 20,807,195	\$ (126,733)	\$ 1,325,628	\$ 39,943,203	\$ 39,943,203

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Consolidated Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For The Years Ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Description	For the years ended December 31,		Description	For the years ended December 31,	
	2020	2019		2020	2019
Cash flows from operating activities:			Cash flows from investing activities:		
Income before income tax	\$ 14,548,974	\$ 9,815,065	Acquisition of financial assets measured at fair value through other comprehensive income	(15,095)	(170,873)
Adjustments for:			Proceeds from capital return of financial assets measured at fair value through other comprehensive income	4,760	5,250
The profit or loss items:			Acquisition of property, plant and equipment	(3,324,011)	(1,480,387)
Depreciation	739,445	603,265	Proceeds from disposal of property, plant and equipment	-	648
Amortization	262,914	286,925	Increase in refundable deposits	(2,499)	(327)
Expected credit losses	80,000	-	Acquisition of intangible assets	(111,126)	(303,105)
Interest expense	6,803	46,922	Increase in prepayment for equipment	(201,981)	(118,952)
Interest income	(102,472)	(125,252)	Net cash used in investing activities	(3,649,952)	(2,067,746)
Loss (Gains) on disposal or retirement of property, plant and equipment	417	(535)			
Unrealized losses from exchange foreign currency	7,353	3,785			
Others	-	(81)	Cash flows from financing activities:		
Changes in operating assets and liabilities :			Decrease in short-term loans	-	(2,191,900)
Trade receivables	(112,489)	(168,977)	Decrease in deposits received	(307,153)	-
Other receivables	(69,199)	(7,881)	Cash payment for the principal portion of the lease liabilities	(60,914)	(58,312)
Inventories	(1,893,641)	684,983	Cash dividends	(6,389,371)	(5,354,901)
Prepayments	7,666	(62,657)	Interest paid	(6,803)	(48,550)
Other financial assets	(4,800)	(300)	Net cash used in financing activities	(6,764,241)	(7,653,663)
Contract liabilities	289,385	(7,947)			
Trade payables	1,729,343	(2,121,016)			
Trade payables to related parties	292,656	(396,571)			
Other payables	1,450,711	558,991			
Other current liabilities	(17,292)	(12,959)			
Net defined benefit liabilities	(4,843)	(5,865)			
Cash generated from operating activities	17,210,931	9,089,895	Effect of exchange rate changes on cash and cash equivalents	(3,888)	(9,272)
Interest received	103,498	124,567	Net increase (decrease) in cash and cash equivalents	4,961,511	(2,583,902)
Income tax paid	(1,934,837)	(2,067,683)	Cash and cash equivalents at the beginning of the year	17,913,796	20,497,698
Net cash generated by operating activities	15,379,592	7,146,779	Cash and cash equivalents at the end of the year	\$ 22,875,307	\$ 17,913,796

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For The Years Ended December 31, 2020 and 2019

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

1. HISTORIES AND ORGANIZATION

Novatek Microelectronics Corporation ("the Company") was incorporated in Hsinchu Science-Based Industrial Park on May 28, 1997. The Company is mainly engaged in researching, developing, manufacturing and sales of integrated circuit chips speech, communication, computer peripheral, LCD driver IC system, embedded MCU, DSP and system. The Company's shares are traded in Taiwan Stock Exchange. The Company's registered office and the main business location is at 2F, No.13, Innovation Road I, Hsinchu Science Park, Hsinchu 300, Taiwan R.O.C.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company and its subsidiaries ("the Group") for the years ended December 31, 2020 and 2019 were authorized for issue by the Board of Directors on February 25, 2021.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2020. The application of these new standards and amendments had no material impact on the Group.

- (2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are recognized by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below:

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 4, 7, 9, 16 and IAS 39	"Interest Rate Benchmark Reform —Phase 2" (Amendment)	January 1, 2021

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2021. All standards and interpretations have no material impact on the Group.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (3) Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below:

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 10 and IAS 28	“Consolidated financial statements” and “Investments in Associates and Joint Ventures” (Amendment)	To be determined by IASB
IFRS 17	“Insurance Contracts”	January 1, 2023
IAS 1	“Classification of Liabilities as Current or Non-current” (Amendment)	January 1, 2023
IFRS 3, IAS 16 and IAS 37	“Business Combination”, “Property, Plant and Equipment” and “Provisions, Contingent Assets” (Amendment) and the Annual Improvements	January 1, 2022

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date of issuance of the Group’s financial statements. The local effective dates are to be determined by FSC. All standards and interpretations have no material impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended December 31, 2020 and 2019 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”), the IFRSs, IASs, and interpretations as well as related guidance endorsed by the FSC with the effective dates.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(3) Basis of consolidation

Principle of consolidation

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- B. exposure, or rights, to variable returns from its involvement with the investee, and
- C. the ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- A. the contractual arrangement with the other vote holders of the investee
- B. rights arising from other contractual arrangements
- C. the Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the shareholders of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

- A. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- B. derecognizes the carrying amount of any non-controlling interest;
- C. recognizes the fair value of the consideration received;

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- D. recognizes the fair value of any investment retained;
- E. recognizes any surplus or deficit in profit or loss; and
- F. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Consolidated entities

Investor	Subsidiary	Main businesses	Percentage of ownership (%)	
			2020.12.31	2019.12.31
NVT	Novatek International (BVI) Ltd.	Investment	100%	100%
NVT	Novatek Investment Corporation Limited	Investment	100%	100%
NVT	Novatek Japan Kabushiki-Kaisha	Design and sales in related business in the integrated circuit	100%	100%
NVT	NTK International Limited	Manufacture and sales in related business in the integrated circuit	100%	100%
NVT	Cheertek International Inc.	Investment	100%	100%
Novatek International (BVI) Ltd.	Novatek (Shenzhen) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	100%	100%
Novatek International (BVI) Ltd.	Novatek International (SAMOA) Ltd.	Investment	100%	100%
Novatek International (SAMOA) Ltd.	Novatek (Suzhou) Co., Ltd.	Electronic spare part, trading and consulting service	100%	100%
Novatek International (SAMOA) Ltd.	Novatek (Xian) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	100%	100%
Cheertek International Inc.	Novatek (Shanghai) Co., Ltd.	Multimedia VLSI software amendment, testing and related consulting services	100%	100%

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IFRS 9 Financial Instruments are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following partial disposals are accounted for as disposals:

- A. when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- B. when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

- A. The Group expects to settle the liability in its normal operating cycle.
- B. The Group holds the liability primarily for the purpose of trading.
- C. The liability is due to be settled within twelve months after the reporting period.
- D. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within twelve months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(8) Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- (a) the Group's business model for managing the financial assets and
- (b) the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as trade receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- (b) 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.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (a) purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) 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.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described below:

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (c) Interest revenue is calculated by using the effective interest method. This 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 assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

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II. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Group made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial assets measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

B. Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Group measures expected credit losses of a financial instrument in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and

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- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- (a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

C. Derecognition of financial assets

A financial asset is derecognized when:

- (a) The rights to receive cash flows from the asset have expired.
- (b) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- (c) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

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D. Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

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- (a) it eliminates or significantly reduces a measurement or recognition inconsistency;
or
- (b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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(9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. in the principal market for the asset or liability, or
- B. in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(10) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials — Actual purchase cost measured using weighted-average method.

Finished goods and work in progress — Cost of direct materials and manufacturing overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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(11) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and facilities	6~51 years
Machinery and equipment	4~6 years
Moulding equipment	2 years
Other equipment	2~6 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively as changes in accounting estimates, if appropriate.

(12) Leases

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

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- A. the right to obtain substantially all of the economic benefits from use of the identified asset; and
- B. the right to direct the use of the identified asset.

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Group for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximising the use of observable information.

Group as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Group recognizes right-of-use asset and lease liability for all leases which the Group is the lessee of those lease contracts.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- A. fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- B. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- C. amounts expected to be payable by the lessee under residual value guarantees;
- D. the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- E. payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Group measures the lease liability on an amortised cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

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At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- A. the amount of the initial measurement of the lease liability;
- B. any lease payments made at or before the commencement date, less any lease incentives received;
- C. any initial direct costs incurred by the lessee; and
- D. an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Group measures the right-of-use applying a cost model.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Group accounted for as short-term leases or leases of low-value assets, the Group presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements of comprehensive income.

For short-term leases or leases of low-value assets, the Group elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

(13) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

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The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Group can demonstrate:

- A. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- B. its intention to complete and its ability to use or sell the asset;
- C. how the asset will generate future economic benefits;
- D. the availability of resources to complete the asset;
- E. the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

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A summary of the policies applied to the Group's intangible assets is as follows:

	Expertise capitalized	Computer software	Other intangible assets
Useful lives	Finite (5~10 years)	Finite (3~10 years)	Finite (3 years)
Amortization method used	Amortized on a straight-line basis over the period of the patent	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight-line basis over the estimated useful life
Internally generated or acquired	Acquired	Acquired	Acquired

(14) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(15) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(16) Sales returns and allowances

The Group estimates sales returns and allowances based on past experience and other known factors in accordance with IFRS 15, which are recognized as deduction of operating revenue and provisions.

(17) Revenue recognition

The Group's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policy is explained as follows:

Sale of goods

The Group manufactures and sells goods. Sales are recognized when control of the goods is transferred to the customers and the goods are delivered to the customers. The main products of the Group are Display driver IC and SoC and revenue is recognized based on the consideration stated in the contract.

The credit period of the Group's sale of goods is from 60 to 150 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Group has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. Besides, in accordance with IFRS 9, the Group measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

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Rendering of services

Revenue from the rendering of services primarily comes from non-recurring engineering, which is recognized based on the stage of completion of the contracts. Most of the contractual considerations of the Group are collected evenly throughout the contract periods. When the Group has performed the services to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component arises.

(18) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore, fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees' subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- A. the date of the plan amendment or curtailment, and
- B. the date that the Group recognizes restructuring-related costs

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Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(19) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

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- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities 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. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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(1) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 6.

(2) Valuation for inventories

Inventories are valued at lower of cost and net realizable value, so the Group need to use the judgments and estimates to decide the net realizable value at the end of the reporting period. Estimation of the fundamental about the inventory valuation is nature of the inventory, the value in used calculation based on historical experience and market price. Please refer to Note 6.

(3) Post-employment benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases. Please refer to Note 6 for more details.

(4) Revenue recognition — sales returns and allowance

The Group estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, revenue is recognized to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Please refer to Note 6 for more details.

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(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(5) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the market approach and asset approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(6) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group entities' domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6 for disclosure on unrecognized deferred tax assets of the Group as of December 31, 2020.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,	
	2020	2019
Cash on hand	\$1,616	\$1,502
Checking and saving accounts	5,907,282	679,724
Fixed-term deposits	16,700,520	16,871,476
Cash equivalents		
Puttable notes — commercial paper	265,889	361,094
	<u>\$22,875,307</u>	<u>\$17,913,796</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(2) Trade receivables

	As of December 31,	
	2020	2019
Trade receivables	\$14,101,266	\$13,988,777
Less: loss allowance	(727,798)	(647,798)
	<u>\$13,373,468</u>	<u>\$13,340,979</u>

Trade receivables were not pledged.

Trade receivables are generally on 60-150 day terms. Please refer to Note 6 (14) for more details on loss allowance of trade receivables for the years ended December 31, 2020 and 2019. Please refer to Note 12 for more details on credit risk management.

(3) Other receivables

	As of December 31,	
	2020	2019
Income tax refund receivable	\$318,156	\$248,889
Interest receivable	1,891	2,917
	<u>\$320,047</u>	<u>\$251,806</u>

(4) Inventories

	As of December 31,	
	2020	2019
Raw materials	\$803,127	\$496,251
Supplies	410,908	374,324
Work in progress	4,560,264	2,899,758
Finished goods	2,381,913	2,492,238
	<u>\$8,156,212</u>	<u>\$6,262,571</u>

Expenses and losses incurred on inventories for the years ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31,	
	2020	2019
Cost of inventories sold	\$51,342,287	\$43,648,449
Allowance for inventory valuation and obsolescence loss	657,000	111,000
Revenue from sale of scraps	(1,474)	(1,530)
	<u>\$51,997,813</u>	<u>\$43,757,919</u>

Inventories were not pledged.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(5) Financial assets measured at fair value through other comprehensive income

	As of December 31,	
	2020	2019
Equity instrument investments measured at fair value through other comprehensive income, non-current:		
Unlisted companies' stocks		
SHIEH YONG Investment Co., Ltd.	\$2,407,239	\$1,033,671
Unitech Capital Inc.	212,049	164,981
TriKnight Capital Corporation	391,887	359,357
Fortemedia Inc.	4,510	4,510
Yobon Technologies, Inc.	150	150
Perinnova Limited	5,861	5,861
Gear Radio Limited	39,431	39,012
	<u>\$3,061,127</u>	<u>\$1,607,542</u>

The Group acquire NT\$4,760 thousand and NT\$5,250 thousand for the return of capital from TriKnight Capital Corporation which were reported under equity instrument investments measured at fair value through other comprehensive income in 2020 and 2019, respectively.

In 2019, the Group invested Gear Radio Limited in the amount of NT\$39,012 thousand and acquired 1,900,000 shares, representing 9.29% ownership.

In 2019, the Group also invested Perinnova Limited in the amount of NT\$5,861 thousand and acquired 1,900 shares, representing 19.00% ownership.

(6) Property, plant and equipment

	As of December 31,	
	2020	2019
Owner occupied property, plant and equipment	<u>\$6,577,261</u>	<u>\$3,838,703</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

A. Owner occupied property, plant and equipment

	Buildings and facilities	Machinery and equipment	Moulding equipment	Other equipment	Construction in progress	Total
Cost:						
As of January 1, 2020	\$2,339,008	\$2,651,830	\$122,548	\$109,061	\$773,143	\$5,995,590
Additions	22,814	646,606	79,239	6,588	2,568,764	3,324,011
Disposals	(750)	(109,651)	(21,389)	(2,620)	-	(134,410)
Exchange differences	9,374	1,921	-	735	-	12,030
Other changes	20,460	56,037	-	7,020	-	83,517
As of December 31, 2020	<u>\$2,390,906</u>	<u>\$3,246,743</u>	<u>\$180,398</u>	<u>\$120,784</u>	<u>\$3,341,907</u>	<u>\$9,280,738</u>
As of January 1, 2019	\$2,328,187	\$1,943,870	\$89,315	\$104,664	\$-	\$4,466,036
Additions	4,530	762,396	65,522	15,367	773,143	1,620,958
Disposals	(1,135)	(189,767)	(32,289)	(9,050)	-	(232,241)
Exchange differences	(21,743)	(4,077)	-	(2,080)	-	(27,900)
Other changes	29,169	139,408	-	160	-	168,737
As of December 31, 2019	<u>\$2,339,008</u>	<u>\$2,651,830</u>	<u>\$122,548</u>	<u>\$109,061</u>	<u>\$773,143</u>	<u>\$5,995,590</u>
Depreciation and impairment:						
As of January 1, 2020	\$957,550	\$1,066,802	\$55,322	\$77,213	\$-	\$2,156,887
Depreciation	78,064	527,802	58,212	12,609	-	676,687
Disposals	(750)	(109,483)	(21,389)	(2,371)	-	(133,993)
Exchange differences	1,822	1,454	-	620	-	3,896
Other changes	-	(704)	-	704	-	-
As of December 31, 2020	<u>\$1,036,686</u>	<u>\$1,485,871</u>	<u>\$92,145</u>	<u>\$88,775</u>	<u>\$-</u>	<u>\$2,703,477</u>
As of January 1, 2019	\$888,442	\$840,971	\$52,999	\$72,230	\$-	\$1,854,642
Depreciation	73,178	418,457	34,612	15,393	-	541,640
Disposals	(1,135)	(189,667)	(32,289)	(9,037)	-	(232,128)
Exchange differences	(2,935)	(2,838)	-	(1,494)	-	(7,267)
Other changes	-	(121)	-	121	-	-
As of December 31, 2019	<u>\$957,550</u>	<u>\$1,066,802</u>	<u>\$55,322</u>	<u>\$77,213</u>	<u>\$-</u>	<u>\$2,156,887</u>
Net carrying amount as of:						
December 31, 2020	<u>\$1,354,220</u>	<u>\$1,760,872</u>	<u>\$88,253</u>	<u>\$32,009</u>	<u>\$3,341,907</u>	<u>\$6,577,261</u>
December 31, 2019	<u>\$1,381,458</u>	<u>\$1,585,028</u>	<u>\$67,226</u>	<u>\$31,848</u>	<u>\$773,143</u>	<u>\$3,838,703</u>

B. Components of buildings with different useful lives are main building structure, electromechanical and air conditioning units, which are depreciated over 20~51 years and 6~21 years, respectively.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

C. The Group's property, plant and equipment were not pledged.

(7) Intangible assets

	Computer software	Goodwill	Expertise capitalized	Others	Total
Cost:					
As of January 1, 2020	\$309,840	\$2,080,084	\$2,329,731	\$91,000	\$4,810,655
Additions	39,336	-	71,790	-	111,126
Decreases	(9,300)	-	-	-	(9,300)
Exchange differences	78	-	144	-	222
Other changes	-	-	-	-	-
As of December 31, 2020	<u>\$339,954</u>	<u>\$2,080,084</u>	<u>\$2,401,665</u>	<u>\$91,000</u>	<u>\$4,912,703</u>
As of January 1, 2019	\$331,348	\$2,080,084	\$2,067,254	\$91,000	\$4,569,686
Additions	40,294	-	262,811	-	303,105
Decreases	(62,764)	-	-	-	(62,764)
Exchange differences	(181)	-	(334)	-	(515)
Other changes	1,143	-	-	-	1,143
As of December 31, 2019	<u>\$309,840</u>	<u>\$2,080,084</u>	<u>\$2,329,731</u>	<u>\$91,000</u>	<u>\$4,810,655</u>
Amortization and impairment:					
As of January 1, 2020	\$245,736	\$-	\$1,788,685	\$80,889	\$2,115,310
Amortization	50,863	-	200,353	10,111	261,327
Decreases	(9,300)	-	-	-	(9,300)
Exchange differences	60	-	134	-	194
As of December 31, 2020	<u>\$287,359</u>	<u>\$-</u>	<u>\$1,989,172</u>	<u>\$91,000</u>	<u>\$2,367,531</u>
As of January 1, 2019	\$274,110	\$-	\$1,568,742	\$50,556	\$1,893,408
Amortization	34,503	-	220,226	30,333	285,062
Decreases	(62,764)	-	-	-	(62,764)
Exchange differences	(113)	-	(283)	-	(396)
As of December 31, 2019	<u>\$245,736</u>	<u>\$-</u>	<u>\$1,788,685</u>	<u>\$80,889</u>	<u>\$2,115,310</u>
Net carrying amount as of:					
December 31, 2020	<u>\$52,595</u>	<u>\$2,080,084</u>	<u>\$412,493</u>	<u>\$-</u>	<u>\$2,545,172</u>
December 31, 2019	<u>\$64,104</u>	<u>\$2,080,084</u>	<u>\$541,046</u>	<u>\$10,111</u>	<u>\$2,695,345</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Amortization expense of intangible assets under the statement of comprehensive income:

	Years Ended December 31,	
	2020	2019
Research and development expenses	\$230,242	\$267,939
Administrative expenses	\$31,085	\$17,123

(8) Other non-current assets

	As of December 31,	
	2020	2019
Prepayments for equipment	\$127,382	\$8,918
Refundable deposits	17,882	15,383
Others	1,200	2,777
	\$146,464	\$27,078

(9) Impairment testing of goodwill

The Group is a single operating segment, also a cash-generating unit, based on which, the Group assesses whether the goodwill is impaired annually. The major revenue of the Group comes from flat panel display and integrated circuit design products, assessments are as follows:

The recoverable amounts of the cash-generating unit have been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the change in demand for products and services. The pre-tax discount rate applied to cash flow projections is 16.06% in 2020 and 15.21% in 2019. Cash flows beyond the five-year period are extrapolated using the growth rate of 0.1% in 2020 and 2.8% in 2019. As of December 31, 2020 and 2019, the group did not identify any impairment for goodwill of NT\$2,080,084 thousand.

The calculation of value-in-use for cash-generating units is most sensitive to the following assumptions:

- A. Gross margin
- B. Discount rates
- C. Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins — gross margins are based on the actual results in the recent years, and are adjusted with considering the expected future market trend.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Discount rates — the discount rates were estimated based on the weighted average cost of capital (WACC) for the Group, taking into account the particular situations of the Group and its operating segments. The WACC includes both the cost of liabilities and cost of equities. The cost of equities is derived from the expected returns of the Group's investors on capital, where the cost of liabilities is measured by the interest-bearing loans that the Group has obligation to settle.

Growth rates of sales estimates — the growth rates of sales are based on historical experiences. For the reasons explained above, the long-term average growth rate used to extrapolate the budget has been adjusted base on the speed of product innovation and the overall economic environment.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(10) Other current liabilities

	As of December 31,	
	2020	2019
Sales returns and allowance	\$82,237	\$90,076
Advance sales receipts	18,554	19,287
Others	34,963	43,683
	<u>\$135,754</u>	<u>\$153,046</u>

(11) Post-employment benefits

Defined contribution plan

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

For the years ended December 31, 2020 and 2019, the pension expenses recognized under the defined contribution plan are NT\$178,129 thousand and NT\$160,886 thousand, respectively.

Defined benefit plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in one appropriation before the end of March in the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandating, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT\$8,933 thousand to its defined benefit plan during the 12 months beginning after December 31, 2020.

The average duration of the defined benefit plan obligation as of December 31, 2020 and 2019 are 14.64 years and 15.27 years, respectively.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Pension costs recognized in profit or loss for the years ended December 31, 2020 and 2019:

	Years Ended December 31,	
	2020	2019
Current period service costs	\$2,779	\$1,402
Interest income or expense	1,298	1,756
Other adjustments	12	-
	<u>\$4,089</u>	<u>\$3,158</u>

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	As of		
	December 31, 2020	December 31, 2019	January 1, 2019
Defined benefit obligation	\$368,810	\$349,951	\$313,749
Plan assets at fair value	(200,952)	(187,746)	(173,192)
Other adjustments	2	(11)	(17)
Net defined benefit liabilities, non-current recognized on the consolidated balance sheets	<u>\$167,860</u>	<u>\$162,194</u>	<u>\$140,540</u>

Reconciliation of liabilities (assets) under the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liabilities (assets)
As of January 1, 2019	\$313,749	\$(173,192)	\$140,557
Current period service costs	1,402	-	1,402
Net interest expense (income)	3,921	(2,165)	1,756
	<u>319,072</u>	<u>(175,357)</u>	<u>143,715</u>
Remeasurements of the net defined benefit liabilities (assets):			
Actuarial gains and losses arising from changes in demographic assumptions	128	-	128
Actuarial gains and losses arising from changes in financial assumptions	22,974	-	22,974
Experience adjustments	9,932	-	9,932
Remeasurements on plan assets	-	(5,515)	(5,515)
	<u>33,034</u>	<u>(5,515)</u>	<u>27,519</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Defined benefit obligation	Fair value of plan assets	Benefit liabilities (assets)
Contributions by employer	-	(9,029)	(9,029)
Payments from the plan	(2,155)	2,155	-
As of December 31, 2019	349,951	(187,746)	162,205
Current period service costs	2,779	-	2,779
Net interest expense (income)	2,800	(1,502)	1,298
	355,530	(189,248)	166,282
Remeasurements of the net defined benefit liabilities (assets):			
Actuarial gains and losses arising from changes in demographic assumptions	2,683	-	2,683
Actuarial gains and losses arising from changes in financial assumptions	22,059	-	22,059
Experience adjustments	(8,042)	-	(8,042)
Remeasurements on plan assets	-	(6,191)	(6,191)
	16,700	(6,191)	10,509
Contributions by employer	-	(8,933)	(8,933)
Payments from the plan	(3,420)	3,420	-
As of December 31, 2020	\$368,810	\$(200,952)	\$167,858

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	As of December 31,	
	2020	2019
Discount rate	0.37%	0.80%
Expected rate of salary increases	3.00%	3.00%

The sensitivity analyses for significant assumption are shown below:

	Years Ended December 31,			
	2020		2019	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increases by 0.5%	\$-	\$(25,733)	\$-	\$(25,427)
Discount rate decreases by 0.5%	28,263	-	27,994	-
Future salary increases by 0.5%	27,369	-	27,228	-
Future salary decreases by 0.5%	-	(25,223)	-	(25,025)

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(12) Equities

A. Common stock

As of both December 31, 2020 and 2019, the Company's authorized capital was NT\$7,500,000 thousand and the issued capital was NT\$6,085,115 thousand, each at a par value of NT\$10. The Company has issued 608,512 thousand common shares as of both December 31, 2020 and 2019. Each share has one voting right and a right to receive dividends.

B. Capital surplus

	As of December 31,	
	2020	2019
Additional paid-in capital — common stock	\$-	\$633,745
Additional paid-in capital — conversion of convertible bonds	7,959	7,959
Premium from merger	2,244,432	2,244,432
Employee stock option	122,663	401,686
	<u>\$2,375,054</u>	<u>\$3,287,822</u>

According to the Company Act, the capital surplus shall not be used except for offset a deficit of the company. When a company incurs no loss, it may distribute the capital surplus derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Legal Reserve

According to the Company Act, the company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of the company. When the company incurs no loss, it may distribute the portion of legal serve, which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

D. Special Reserve

With the first-time adoption of IFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

Upon first-time adoption of the IFRS, any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemptions under IFRS 1, the company shall set aside an equal amount of special reserve. After the first-time adoption of IFRS, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

E. Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income after tax; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- (d) Special reserve in compliance with the Company Law or Securities and Exchange Law;
- (e) The remaining balance after the mentioned above payment to be made, combining with the undistributed earnings of the proceeding years may be retained or distributed as shareholders' dividends after the approval of the shareholders' meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting. Dividends distributed to shareholders, if any, could be paid in the form of cash or share dividends. At least 50% of the dividends must be paid in the form of cash.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The 2019 and 2018 earnings distribution and dividends per share as approved by the shareholders' meeting on June 9, 2020 and June 5, 2019, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	Years Ended December 31,			
	2019	2018	2019	2018
Legal reserve	\$792,741	\$639,063		
Special reserve	(215,821)	374,804		
Common stock — cash dividends	5,476,603	5,354,901	9.00	8.80

In addition, the general shareholders' meeting on June 9, 2020 resolved to distribute the additional paid-in capital by cash in the amount of NT\$912,768 thousand, or NT\$1.5 per share.

Please refer to Note 6(16) for further details on employees' compensation and remuneration to directors.

(13) Operating revenue

A. Disaggregation of revenue

	Years Ended December 31,	
	2020	2019
Revenue from contracts with customers		
Sale of goods	\$79,358,538	\$63,989,338
Other operating revenues	596,982	382,968
	<u>\$79,955,520</u>	<u>\$64,372,306</u>
Timing of revenue recognition:		
At a point in time	\$79,404,149	\$64,100,914
Over time	551,371	271,392
	<u>\$79,955,520</u>	<u>\$64,372,306</u>

B. Contract balances

Contract liabilities, current

	As of December 31,	
	2020	2019
Sale of goods	\$2,773	\$28,477
Other operating revenues	327,874	12,785
	<u>\$330,647</u>	<u>\$41,262</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The significant changes in the Group's balances of contract liabilities for the years ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31,	
	2020	2019
Performance during the period	\$(119,634)	\$(74,990)
Increase in receipts in advance during the period	409,019	67,043

C. Transaction price allocated to unsatisfied performance obligations

There is no need to provide relevant information of the unsatisfied performance obligations as the contract terms with customers about the sales of goods are all shorter than one year.

D. Assets recognized from costs to fulfil a contract: None.

(14) Expected credit losses

	Years Ended December 31,	
	2020	2019
Operating expenses — Expected credit losses		
Trade receivables	\$80,000	\$-

Please refer to Note 12 for more details on credit risk.

The Group measures the credit loss allowance of its trade receivables at an amount equal to lifetime expected credit losses. The assessment of the Group's credit loss allowance as of December 31, 2020 and 2019 are as follows:

The Group consider the grouping of trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follows:

As of December 31, 2020

	Days of trade receivables			Total
	<=60 days	61-180 days	>=180 days	
Gross carrying amount	\$10,785,254	\$3,292,153	\$23,859	\$14,101,266
Loss ratio	1%-5%	10%-30%	20%-100%	
Lifetime expected credit losses	209,764	494,175	23,859	727,798
	\$10,575,490	\$2,797,978	\$-	\$13,373,468

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

As of December 31, 2019

	Days of trade receivables			Total
	<=60 days	61-180 days	>=180 days	
Gross carrying amount	\$9,430,988	\$4,532,673	\$25,116	\$13,988,777
Loss ratio	1%-5%	5%-30%	20%-100%	
Lifetime expected credit losses	187,175	435,507	25,116	647,798
	<u>\$9,243,813</u>	<u>\$4,097,166</u>	<u>\$-</u>	<u>\$13,340,979</u>

The movement in the provision for impairment of trade receivables as for the years ended December 31, 2020 and 2019 are as follows:

Loss allowance	Year Ended December 31, 2020
As of January 1, 2020	\$647,798
Addition/(reversal) for the current period	80,000
As of December 31, 2020	<u>\$727,798</u>
Loss allowance	Year Ended December 31, 2019
As of January 1, 2019	\$647,798
Addition/(reversal) for the current period	-
As of December 31, 2019	<u>\$647,798</u>

(15) Leases

A. Group as a lessee

The Group leases various properties, including real estate such as land and buildings, and other equipment. The lease terms range from 1 to 35 years.

The Group's leases effect on the financial position, financial performance and cash flows are as follow:

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(a) Amounts recognized in the balance sheet

I. Right-of-use assets

The carrying amount of right-of-use assets

	As of December 31,	
	2020	2019
Land	\$166,889	\$174,041
Buildings	95,163	92,190
	<u>\$262,052</u>	<u>\$266,231</u>

During the years ended December 31, 2020 and 2019, the Group's additions to right-of-use assets amounting to NT\$4,326 and NT\$0, respectively.

II. Lease liabilities

	As of December 31,	
	2020	2019
Lease liabilities	<u>\$267,049</u>	<u>\$269,374</u>
Current	\$53,318	\$54,266
Non-current	\$213,731	\$215,108

Please refer to Note 6(17) for the interest on lease liabilities recognized during the years ended December 31, 2020 and 2019, and refer to Note 12(5) Liquidity Risk Management for the maturity analysis for lease liabilities as of December 31, 2020 and 2019.

(b) Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	Years Ended December 31,	
	2020	2019
Land	\$9,338	\$8,974
Buildings	53,420	52,651
	<u>\$62,758</u>	<u>\$61,625</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(c) Income and costs relating to leasing activities

	Years Ended December 31,	
	2020	2019
The expenses relating to short-term leases	\$2,308	\$1,694
The expenses relating to leases of low-value assets (Not including the short-term leases)	1,386	1,179
Income from subleasing right-of-use assets	3,112	3,360

(d) Cash outflow relating to leasing activities

During the years ended December 31, 2020 and 2019, the Group's total cash outflows for leases amounting to NT\$70,569 thousand and NT\$67,425 thousand.

(e) Other information relating to leasing activities

Extension option

Some of the Group's property rental agreements contain extension option. In determining the lease terms, the non-cancellable period for which the Group has the right to use an underlying asset, together with both periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option. The option is used to maximize operational flexibility in terms of managing contracts. The majority of extension option held is exercisable only by the Group. After the commencement date, the Group reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (16) Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended December 31, 2020 and 2019:

	Years Ended December 31,					
	2020			2019		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$295,535	\$7,784,025	\$8,079,560	\$256,664	\$6,191,379	\$6,448,043
Labor and health insurance	14,891	329,080	343,971	13,655	351,475	365,130
Pension	11,397	170,821	182,218	10,220	153,824	164,044
Others	710	38,290	39,000	488	37,900	38,388
Total amount	\$322,533	\$8,322,216	\$8,644,749	\$281,027	\$6,734,578	\$7,015,605
Depreciation	\$191,323	\$548,122	\$739,445	\$176,719	\$426,546	\$603,265
Amortization (Note)	\$-	\$262,914	\$262,914	\$-	\$286,925	\$286,925

Note: The amortization expenses include the amortization of other noncurrent assets for the years ended December 31, 2020 and 2019 were NT\$1,587 thousand and NT\$1,863 thousand, respectively.

According to the Articles of Incorporation, no lower than 1% of profit of the current year is distributable as employees' compensation and no higher than 0.4% of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2020 to be NT\$147,041 thousand and NT\$12,000 thousand, respectively. The employees' compensation and remuneration to directors recognized as salary expense. If the estimated amounts differ from the actual distribution resolved by the board of directors, the Company will recognize the change as an adjustment to income of next year. If the board of directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed as employees' compensation was calculated based on the closing price one day earlier than the date of resolution.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

A resolution was approved at a Board of Directors meeting held on February 25, 2021 to distribute NT\$147,041 thousand and NT\$12,000 thousand in cash as employees' compensation and remuneration to directors, respectively. There was no material difference between the aforementioned approved amounts and the amounts charged against earnings in 2020.

No material differences exist between the estimated amount and the actual distribution NT\$99,285 thousand and NT\$12,000 thousand of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2019.

(17) Non-operating income and expenses

A. Interest income

	Years Ended December 31,	
	2020	2019
Interest income — Financial assets measured at amortized cost	\$102,472	\$125,252

B. Other income

	Years Ended December 31,	
	2020	2019
Rental income	\$3,112	\$3,360
Others	43,062	46,882
	\$46,174	\$50,242

C. Other gains and losses

	Years Ended December 31,	
	2020	2019
Foreign exchange losses, net	\$(366,793)	\$(168,571)
(Loss) gains on disposal of property, plant and equipment	(417)	535
Others	(3,257)	(2,892)
	\$(370,467)	\$(170,928)

D. Finance costs

	Years Ended December 31,	
	2020	2019
Interest on borrowings from bank	\$842	\$40,682
Interest on lease liabilities	5,961	6,240
	\$6,803	\$46,922

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(18) Components of other comprehensive income

For the year ended December 31, 2020

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(10,509)	\$-	\$(10,509)	\$-	\$(10,509)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	1,443,250	-	1,443,250	-	1,443,250
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	4,274	-	4,274	-	4,274
	<u>\$1,437,015</u>	<u>\$-</u>	<u>\$1,437,015</u>	<u>\$-</u>	<u>\$1,437,015</u>

For the year ended December 31, 2019

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(27,519)	\$-	\$(27,519)	\$-	\$(27,519)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	245,865	-	245,865	-	245,865
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(30,043)	-	(30,043)	-	(30,043)
	<u>\$188,303</u>	<u>\$-</u>	<u>\$188,303</u>	<u>\$-</u>	<u>\$188,303</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(19) Income tax

The major components of income tax expense are as follows:

Income tax expense (income) recognized in profit or loss

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Current income tax expense:		
Current income tax charge	\$2,869,040	\$1,888,788
Adjustments in respect of current income tax of prior periods	(38,040)	795
Deferred tax expense:		
Deferred tax expense relating to origination and reversal of temporary differences	(107,346)	3,101
Others	8,081	(5,028)
Total income tax expense	<u>\$2,731,735</u>	<u>\$1,887,656</u>

A reconciliation of tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Accounting profit before tax from continuing operations	<u>\$14,548,974</u>	<u>\$9,815,065</u>
Tax at the domestic rates applicable 20% to profits in the country concerned	\$2,909,795	\$1,963,013
Tax effect of revenues exempt from taxation	(259)	(166)
Tax effect of expenses not deductible for tax purposes	196	89
Tax effect of deferred tax assets/ liabilities	(158,089)	(76,185)
Adjustments in respect of current income tax of prior periods	(38,040)	795
Others	18,132	110
Total income tax expense recognized in profit or loss	<u>\$2,731,735</u>	<u>\$1,887,656</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2020

	Beginning balance as of January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Acquired in business combinations	Exchange differences	Ending balance as of December 31, 2020
Temporary differences							
Unrealized foreign							
exchange losses (gains)	\$(40,438)	\$12,392	\$-	\$-	\$-	\$-	\$(28,046)
Unrealized inventory loss							
provision	270,739	95,615	-	-	-	-	366,354
Unrealized loss allowance	101,506	15,756	-	-	-	-	117,262
Unrealized estimated expense	30,099	5,459	-	-	-	-	35,558
Goodwill	(264,885)	(20,308)	-	-	-	-	(285,193)
Unrealized sales returns and							
allowances	18,015	(1,568)	-	-	-	-	16,447
Net defined benefit							
liabilities, non-current	8,922	-	-	-	-	-	8,922
Unused tax credits	2,198	-	-	-	-	-	2,198
Deferred tax income/ (expense)		<u>\$107,346</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax assets	<u>\$126,156</u>						<u>\$233,502</u>
Reflected in balance sheet as follows:							
Deferred tax assets	<u>\$431,479</u>						<u>\$546,741</u>
Deferred tax liabilities	<u>\$305,323</u>						<u>\$313,239</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

For the year ended December 31, 2019

	Beginning balance as of January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Acquired in business combinations	Exchange differences	Ending balance as of December 31, 2019
Temporary differences							
Unrealized foreign							
exchange losses (gains)	\$(95,215)	\$54,777	\$-	\$-	\$-	\$-	\$(40,438)
Unrealized inventory loss							
provision	303,244	(32,505)	-	-	-	-	270,739
Unrealized loss allowance	101,799	(293)	-	-	-	-	101,506
Unrealized estimated expense	29,145	954	-	-	-	-	30,099
Goodwill	(244,577)	(20,308)	-	-	-	-	(264,885)
Unrealized sales returns and							
allowances	23,741	(5,726)	-	-	-	-	18,015
Net defined benefit							
liabilities, non-current	8,922	-	-	-	-	-	8,922
Unused tax credits	2,198	-	-	-	-	-	2,198
Deferred tax income/ (expense)		<u>\$(3,101)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax assets	<u>\$129,257</u>						<u>\$126,156</u>
Reflected in balance sheet as follows:							
Deferred tax assets	<u>\$469,049</u>						<u>\$431,479</u>
Deferred tax liabilities	<u>\$339,792</u>						<u>\$305,323</u>

The following table contains information of the unused tax losses of the Group:

The Company	Year	Tax losses for the period	Unused tax losses as of		
			December 31, 2020	December 31, 2019	Expiration year
Novatek (Xian) Co., Ltd.	2017	\$50	\$-	\$50	2022
Novatek (Shenzhen) Co., Ltd.	2017	189,004	180,936	-	2022
	2018	95,226	95,226	-	2023
Novatek Investment Corporation Limited	2013	12,927	12,927	12,927	2023
			<u>\$289,089</u>	<u>\$12,977</u>	

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Unrecognized deferred tax assets

As of December 31, 2020 and 2019, deferred tax assets that have not been recognized amount to NT\$69,261 thousand and NT\$264 thousand, respectively.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's overseas subsidiaries, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2020 and 2019, deferred tax liability not being recognized for subsidiaries, aggregated to NT\$37,963 thousand and NT\$26,832 thousand, respectively.

The assessment of income tax returns

As of December 31, 2020, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

The Group	The assessment of income tax returns
NVT	Assessed and approved up to 2018
Subsidiary — Novatek Investment Corporation Limited	Assessed and approved up to 2018
Subsidiary — NTK International Limited	Assessed and approved up to 2019

(20) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The capital structure of the Group is considered complex. Computations are as follows:

	Years Ended December 31,	
	2020	2019
(a) Basic earnings per share		
Profit attributable to ordinary equity holders of the parent company (in thousand NT\$)	<u>\$11,817,239</u>	<u>\$7,927,409</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand share)	<u>608,512</u>	<u>608,512</u>
Basic earnings per share (NT\$)	<u>\$19.42</u>	<u>\$13.03</u>
(b) Diluted earnings per share		
Profit attributable to ordinary equity holders of the parent company after dilution (in thousand NT\$)	<u>\$11,817,239</u>	<u>\$7,927,409</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand share)	608,512	608,512
Effect of dilution:		
Employee bonus-stock (in thousand share)	<u>521</u>	<u>540</u>
Weighted average number of ordinary shares outstanding after dilution (in thousand share)	<u>609,033</u>	<u>609,052</u>
Diluted earnings per share (NT\$)	<u>\$19.40</u>	<u>\$13.02</u>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the issuance date of the financial statements.

7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Names of related parties	Nature of relationship of the related parties
United Microelectronics Corporation	Director of the Company
HeJian Technology (Suzhou) Co., Ltd.	Other related party
United Semiconductor (Xiamen) Co., LTD.	Other related party
Wavetek Microelectronics Corporation	Other related party
United Semiconductor Japan Co., Ltd.	Other related party

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Significant transactions with related parties

(1) Purchases

	Years Ended December 31,	
	2020	2019
United Microelectronics Corporation	\$11,731,985	\$10,011,182
HeJian Technology (Suzhou) Co., Ltd.	1,630,049	1,024,076
Others	642,550	121,599
	<u>\$14,004,584</u>	<u>\$11,156,857</u>

The purchase price to the above related party is not comparable to the market due to differentiation of manufacturing process and product specification. Payment terms for related parties were month-end 45 days.

(2) Technology Service

	Years Ended December 31,	
	2020	2019
United Microelectronics Corporation	\$187,231	\$216,403
Others	19,033	4,477
	<u>\$206,264</u>	<u>220,880</u>

(3) Trade payables to related parties

Names of related parties	As of December 31,	
	2020	2019
United Microelectronics Corporation	\$1,889,963	\$1,703,128
HeJian Technology (Suzhou) Co., Ltd	287,496	152,996
Others	18,388	47,067
	<u>\$2,195,847</u>	<u>\$1,903,191</u>

Key management personnel compensation

	Years Ended December 31,	
	2020	2019
Short-term employee benefits	\$243,787	\$175,984
Post-employment benefits	1,341	1,317
	<u>\$245,128</u>	<u>\$177,301</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

8. ASSETS PLEDGE AS SECURITY

The following table lists assets of the Group pledged as security:

Assets pledged for security	As of December 31,		Secured liabilities
	2020	2019	
Other financial assets, non-current	\$11,300	\$6,500	Guarantee for land

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

- (1) The Group recorded certain royalty fee since using certain technology know-how of other companies.
- (2) FOCALTECH ELECTRONICS, LTD. (“FOCALTECH”) filed two applications for preliminary injunctions with the Intellectual Property Court against the Company alleging infringement of Patent No. I529580B “TOUCH DISPLAY DEVICE, DRIVING CIRCUIT AND DRIVING METHOD” on August 29, 2018 and September 20, 2018. The Company received Intellectual Property Court 108-Min-Zhan-Kang-Zi-No.2 Civil Ruling in April, 2019. Intellectual Property Court has two applications for preliminary injunctions filed by FOCALTECH. FOCALTECH filed a complaint in the Intellectual Property Court on September 17, 2018 alleging that the Company’s chips infringe the I529580B patent. The Company received Intellectual Property Court 107-Min-Zhuan-Su-Zi-No.95 Civil Judgment on December 23, 2019. The first instance of the complaint for patent infringement has been OVERRULED by the Intellectual Property Court. The Litigation Proceedings are still processing, and the operations and financial of the Company would not be materially affected by this case.
- (3) The Company signed a real estate purchase contract located in Tai Yuen Hi-Tech Industrial Park on May 16, 2019, and the payment due hereunder was NT\$3,690,000 thousand (taxes included). During the year ended December 31, 2020, the Company has paid an amount of NT\$3,394,800 thousand (taxes included).

10. LOSSES DUE TO MAJOR DISASTERS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

12. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments

	As of December 31,	
	2020	2019
<u>Financial assets</u>		
Financial assets measured at fair value		
through other comprehensive income	\$3,061,127	\$1,607,542
Financial assets measured at amortized cost		
Cash and cash equivalents (exclude cash on hand)	22,873,691	17,912,294
Trade receivables	13,693,515	13,592,785
Refundable deposits (classified as other non-current assets)	17,882	15,383
Other financial assets, non-current	11,300	6,500
	<u>\$39,657,515</u>	<u>\$33,134,504</u>
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Trade and other payables	\$15,072,554	\$11,599,844
Deposits received	-	299,800
Lease liabilities	267,049	269,374
	<u>\$15,339,603</u>	<u>\$12,169,018</u>

(2) Financial risk management objectives

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies, measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity instruments).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables, there is usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analysis is as follows:

When NTD strengthens/weakens against USD by 5%, the profit for the years ended December 31, 2020 and 2019 would decrease/increase by NT\$382,353 thousand and NT\$388,854 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans at variable interest rates.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

All of the Group's financial assets and financial liabilities that are exposed to cash flow risk due to fluctuating interest rate are under short term contracts, thus the cash flow risk of fluctuate interest is considerably low.

Equity price risk

The fair value of the Group's unlisted equity securities is susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's unlisted equity securities are classified under financial assets measured at fair value through other comprehensive income. The Group manages the equity price risk through diversification of equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for trade receivables) and from its financing activities, including bank deposits and other financial instruments.

Credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain counter parties' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

As of December 31, 2020 and 2019, trade receivables from top ten customers represented 58% and 64% of the total trade receivables of the Group, respectively. The credit concentration risk of other trade receivables is insignificant.

Credit risk from balances with banks and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions and companies with good credit rating. Consequently, there is no significant credit risk for these counter parties.

The Group adopted IFRS 9 to assess the expected credit losses and the details of the assessment is described as follows:

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Level of credit risk	Indicator	Measurement method for expected credit losses	Total carrying amount of trade receivables as of December 31,	
			2020	2019
Simplified approach (Note)	(Note)	Lifetime expected credit losses	<u>\$14,101,266</u>	<u>\$13,988,777</u>

Note: By using simplified approach (loss allowance is measured at lifetime expected credit losses), including accounts receivables.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments and bank borrowings. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest.

Non-derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2020					
Trade and other payables	\$15,072,554	\$-	\$-	\$-	\$15,072,554
Lease liabilities	58,867	61,699	38,115	157,973	316,654
December 31, 2019					
Trade and other payables	\$11,599,844	\$-	\$-	\$-	\$11,599,844
Lease liabilities	58,904	68,978	22,027	168,675	318,584

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2020:

	Deposits received	Lease liabilities	Total liabilities from financing activities
As of January 1, 2020	\$299,800	\$269,374	\$569,174
Cash flows	(307,153)	(60,914)	(368,067)
Non-cash changes			
Addition for the current period	-	4,326	4,326
Lease modification	-	52,124	52,124
Foreign exchange movement	7,353	2,139	9,492
As of December 31, 2020	<u>\$-</u>	<u>\$267,049</u>	<u>\$267,049</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Reconciliation of liabilities for the year ended December 31, 2019:

	Short-term borrowings	Deposits received	Lease liabilities	Total liabilities from financing activities
As of January 1, 2019	\$2,180,765	\$307,150	\$322,472	\$2,810,387
Cash flows	(2,191,900)	-	(58,312)	(2,250,212)
Non-cash changes				
Lease modification	-	-	6,507	6,507
Foreign exchange movement	11,135	(7,350)	(1,212)	2,573
Others	-	-	(81)	(81)
As of December 31, 2019	\$-	\$299,800	\$269,374	\$569,174

(7) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- (a) The carrying amount of cash and cash equivalents, trade receivables, other receivables, refundable deposit (classified as other non-current assets), other financial assets, non-current and trade and other payables approximate their fair value due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and funds etc.) at the reporting date.
- (c) Fair value of equity instruments without market quotations (including private company equity securities) are estimated using the market approach or asset approach valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information.

B. Fair value of financial instruments measured at amortized cost

Book value of the Group's financial assets and liabilities measured at amortized cost approximate their fair value.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12(8) for fair value measurement hierarchy for financial instruments of the Group.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(8) Fair values measurement hierarchy

A. Fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 — Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets measured at fair value through other comprehensive income				
Equity instrument	\$-	\$-	\$3,061,127	\$3,061,127

As of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets measured at fair value through other comprehensive income				
Equity instrument	\$-	\$-	\$1,607,542	\$1,607,542

Transfers between Level 1 and Level 2 during the period.

During the years ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

For the year ended December 31, 2020

	Assets
	At fair value through other comprehensive income
	Stocks
As of January 1, 2020	\$1,607,542
Total gains and losses recognized:	
Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	1,443,250
Return of capital	(4,760)
Additions in 2020	15,095
As of December 31, 2020	<u>\$3,061,127</u>

For the year ended December 31, 2019

	Assets
	At fair value through other comprehensive income
	Stocks
As of January 1, 2019	\$1,196,054
Total gains and losses recognized:	
Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	245,865
Return of capital	(5,250)
Additions in 2019	170,873
As of December 31, 2019	<u>\$1,607,542</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

As of December 31, 2020:

	Valuation technique	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of the input to fair value
Financial assets:					
Financial assets measured at fair value through other comprehensive income					
Stocks	Asset approach	Discount for lack of marketability and minority interest	10%	The higher the discount for lack of marketability, the lower the fair value estimated	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Group's equity by NT\$334,575 thousand
Stocks	Market approach	Discount for lack of marketability	10%	The higher the discount for lack of marketability, the lower the fair value estimated	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Group's equity by NT\$4,381 thousand

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

As of December 31, 2019:

	Valuation technique	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of the input to fair value
Financial assets:					
Financial assets measured at fair value through other comprehensive income					
Stocks	Asset approach	Discount for lack of marketability and minority interest	10%	The higher the discount for lack of marketability, the lower the fair value estimated	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Group's equity by NT\$173,112 thousand

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Group's finance Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies at each reporting date.

(9) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	As of December 31, 2020		
	Foreign currencies (In thousands)	Foreign exchange rate	NTD (In thousands)
Financial assets			
Monetary items:			
USD	\$591,280	28.48	\$16,869,735
RMB	53,065	4.377	232,264

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	As of December 31, 2020		
	Foreign currencies (In thousands)	Foreign exchange rate	NTD (In thousands)
<u>Financial liabilities</u>			
Monetary items:			
USD	\$322,774	28.48	\$9,192,593
RMB	17,663	4.377	77,310

	As of December 31, 2019		
	Foreign currencies (In thousands)	Foreign exchange rate	NTD (In thousands)
<u>Financial assets</u>			
Monetary items:			
USD	\$518,687	29.98	\$15,553,526
RMB	39,952	4.305	171,992

<u>Financial liabilities</u>			
Monetary items:			
USD	\$257,030	29.98	\$7,705,757
RMB	16,586	4.305	71,405

The Group does not disclose all of information regarding the assets and liabilities denominated in foreign currencies due to the varieties of foreign currency transactions. During the years ended December 31, 2020 and 2019, the foreign exchange losses were NT\$366,793 thousand and NT\$168,571 thousand, respectively.

(10) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. ADDITIONAL DISCLOSURES

(1) The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau:

- A. Financing provided to others for the year ended December 31, 2020: None.
- B. Endorsement/Guarantee provided to others for the year ended December 31, 2020: None.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

C. Marketable securities held as of December 31, 2020 (excluding subsidiaries):

Held Company Name	Marketable Securities Type and Name		Relationship with the Company	Financial Statement Account	December 31, 2020				
					Shares/Units (In thousands)	Carrying Value	Percentage of Ownership (%)	Fair Value	Note
Novatek Microelectronics Corp.	Common Stock	SHIEH YONG Investment Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income, non-current	115,620	\$2,407,239	15.15%	\$2,407,239	-
	Common Stock	Unitech Capital Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	6,000	212,049	12.00%	212,049	-
	Common Stock	TriKnight Capital Corporation	-	Financial assets measured at fair value through other comprehensive income, non-current	27,333	261,258	4.67%	261,258	-
Novatek Investment Corporation Limited	Preferred Stock	Fortemedia Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	296	4,510	0.23%	4,510	-
	Common Stock	Yobon Technologies, Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	26	150	3.79%	150	-
	Common Stock	TriKnight Capital Corporation	-	Financial assets measured at fair value through other comprehensive income, non-current	13,666	130,629	2.33%	130,629	-
	Common Stock	Perinnova Limited	-	Financial assets measured at fair value through other comprehensive income, non-current	1.9	5,861	19.00%	5,861	-
	Preferred Stock	Gear Radio Limited	-	Financial assets measured at fair value through other comprehensive income, non-current	2,400	39,431	10.99%	39,431	-

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2020:

Company Name	Marketable Securities Type and Name		Financial Statement Account	Counter-party	Nature of Relationship	Beginning balance		Acquisition		Disposal				Ending balance	
						Shares /Units (In thousands)	Amount	Shares /Units (In thousands)	Amount	Shares /Units (In thousands)	Amount	Carrying Value	Gains (Losses) on Disposal	Shares /Units (In thousands)	Amount
Novatek Microelectronics Corp.	Common Stock	Novatek International (BVI) Ltd.	Investments accounted for using the equity method	Novatek International (BVI) Ltd.	Subsidiary	56,500	\$673,031	17,000	\$503,900	-	\$-	\$-	\$-	50,000 (Note 2)	\$688,740 (Note 1)

Note 1: Including losses recognizes from investments accounted for using the equity method in the amount of NT\$499,611 thousand, and gains from cumulative-translation adjustment recognized base on exchange rate in the amount of NT\$11,420 thousand.

Note 2: The decrease in a total of 23,500 shares is due to reduce capital and make up for losses.

- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended December 31, 2020: None.
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2020: None.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the paid-in capital for the year ended December 31, 2020:

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable	
			Purchase/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
Novatek Microelectronics Corp.	NTK International Limited	Subsidiary	Sales	\$(9,323,323)	(11.67)%	month-end 60 days	-	-	\$812,084	5.74%
Novatek Microelectronics Corp.	United Microelectronics Corp.	Directors of the Company	Purchase	11,731,985	35.63%	month-end 45 days	-	-	(1,889,963)	(19.44)%
Novatek Microelectronics Corp.	HeJian Technology (Suzhou) Co., Ltd	Other related party	Purchase	1,630,049	4.95%	month-end 45 days	-	-	(287,496)	(2.96)%
Novatek Microelectronics Corp.	United Semiconductor (Xiamen) Corp.	Other related party	Purchase	612,652	1.86%	month-end 45 days	-	-	(11,643)	(0.12)%
NTK International Limited	Novatek Microelectronics Corp.	Subsidiary	Purchase	9,323,323	100.00%	month-end 60 days	-	-	(812,084)	(100.00)%

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of paid-in capital as of December 31, 2020:

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Novatek Microelectronics Corp.	NTK International Limited	Subsidiary	\$812,084	13.19	-	-	\$812,084	-

I. Financial instruments and derivative transactions: None.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

J. Intercompany relationship and significant intercompany transactions for the year ended December 31, 2020:

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statement Item	Amount	Term	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Novatek Microelectronics Corp.	Novatek Japan Kabushiki-Kaisha	1	Service expenses	\$28,958	According to the contract	(0.04)%
0	Novatek Microelectronics Corp.	NTK International Limited	1	Sales	9,323,323	month-end 60 days	11.66%
0	Novatek Microelectronics Corp.	NTK International Limited	1	Trade receivables	812,084	month-end 60 days	1.40%
1	Novatek International (BVI) Ltd.	Novatek (Suzhou) Co., Ltd.	3	Administrative expenses	113,266	According to the contract	(0.14)%
1	Novatek International (BVI) Ltd.	Novatek (Xian) Co., Ltd.	3	Administrative expenses	187,742	According to the contract	(0.23)%
1	Novatek International (BVI) Ltd.	Novatek (Shenzhen) Co., Ltd.	3	Administrative expenses	209,068	According to the contract	(0.26)%
2	Cheertek International Inc.	Novatek (Shanghai) Co., Ltd.	3	Administrative expenses	171,669	According to the contract	(0.21)%

Note 1: Number should be input in the remark column for intercompany transactions. Here illustrate how to assign numbers to transactions.

1. 0 for parent company.

2. Subsidiaries are given a number in sequence starting with No. 1.

Note 2: There are three types of transactions. Please remark the type of transaction by giving a number to it.

1. Parent to Subsidiary.

2. Subsidiary to Parent.

3. Subsidiaries to Subsidiaries.

Note 3: Asset/liability items are calculated by using the ending balances of the item divided by ending balance of total consolidated assets; Profit/loss items are calculated by using the amount of the transaction divided by total consolidated revenue.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(2) Information on investees

Names, locations and related information of investees as of December 31, 2020 (excluding investment in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2020			Net Income (losses) of the Investee	Profits/losses of Investee	Note
				December 31, 2020	December 31, 2019	Shares (In thousands)	Percentage of Ownership	Carrying Value			
Novatek Microelectronics Corp.	Novatek Investment Corporation Limited	Taiwan	Investment	\$580,000	\$580,000	58,000	100.00%	\$532,793	\$1,297	\$1,297	-
	Cheertek International Inc.	Samoa	Investment	209,150	553,560	7,000	100.00%	35,420	(168,527)	(168,527)	-
	Novatek International (BVI) Ltd.	British Virgin Islands	Investment	1,517,830	1,738,970	50,000	100.00%	688,740	(499,611)	(499,611)	-
	NTK International Limited	Kowloon, Hong Kong	Manufacture and sales in related business in the integrated circuit	20,949	20,949	5,000	100.00%	186,672	59,605	59,605	-
	Novatek Japan Kabushiki-Kaisha	Tokyo, Japan	Design, sales and services in related business in the integrated circuit	5,430	5,430	0.4	100.00%	1,167	(217)	(217)	-
Novatek International (BVI) Ltd.	Novatek International (SAMOA) Ltd.	Samoa	Investment	USD4,000 thousand	USD4,000 thousand	4,000	100.00%	106,746	9,028	-	-

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NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(3) Investment in China

A. Investment situation:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Note 6)	Method of Investment	Accumulated outflow of Investment from Taiwan as of January 1, 2020 (Note 6)	Investment Flows		Accumulated outflow of Investment from Taiwan as of December 31, 2020 (Note 6)	Percentage of Ownership	Net Income (Losses) of the Investee Company	Share of Profits /Losses (Note 5)	Carrying Amount as of December 31, 2020	Accumulated Inward Remittance of Earnings as of December 31, 2020
					Outflow	Inflow						
Novatek (Suzhou) Co., Ltd.	Electronic spare part, trading and consulting services	\$34,300 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 1)	\$34,300 (USD1,000 thousand)	\$-	\$-	\$34,300 (USD1,000 thousand)	100.00%	\$6,050	\$6,050	\$48,516	\$-
Novatek (Shanghai) Co., Ltd.	Multimedia VLSI software amendment, testing and related consulting services	32,485 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 2)	32,485 (USD1,000 thousand)	-	-	32,485 (USD1,000 thousand)	100.00%	3,168	3,168	58,968	-
Novatek (Xian) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	88,410 (USD3,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 3)	88,410 (USD3,000 thousand)	-	-	88,410 (USD3,000 thousand)	100.00%	2,978	2,978	58,223	-
Novatek (Shenzhen) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	938,280 (USD30,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 4)	938,280 (USD30,000 thousand)	-	-	938,280 (USD30,000 thousand)	100.00%	4,194	4,194	570,772	-

Accumulated Investment in Mainland China as of December 31, 2020	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,093,475 (Note 6) (USD35,000 thousand)	\$1,093,475 (Note 6) (USD35,000 thousand)	\$23,965,922

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Note 1: The Company indirectly invested in Novatek (Suzhou) Co., Ltd., via investment in Novatek International (SAMOA) Ltd., an equity investee, via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 2: The Company indirectly invested in Novatek (Shanghai) Co., Ltd. via investment in Cheertek International Inc., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 3: The Company indirectly invested in Novatek (Xian) Co., Ltd. via investment in Novatek International (SAMOA) Ltd., an equity investee, via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 4: The Company indirectly invested in Novatek (Shenzhen) Co., Ltd. via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 5: The share of profits/losses from equity investments under the equity method in 2020 were recognized based on its financial statements audited by Taiwan parent company's independent auditor.

Note 6: This was calculated by using the exchange rate on remittance day.

B. Significant direct or indirect transactions with the investees in Mainland China:

- (1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: None.
- (2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: None.
- (3) The amount of property transactions and the amount of the resultant gains or losses: None.
- (4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None.
- (5) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: None.
- (6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services: Please refer to Note 13(1) J.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(4) Information of major shareholders

There are no shareholders holding more than 5% (included) of the Company's shares for the year ended December 31, 2020.

14. SEGMENT INFORMATION

A. General information

The major revenue of the Group comes from flat panel display and integrated circuit design products. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Group is aggregated into a single segment.

B. Operations in different geographic areas

A geographical financial information for the years ended December 31, 2020 and 2019 is as follows:

(a) Revenues from external customers:

	Years Ended December 31,	
	2020	2019
Taiwan	\$33,015,712	\$26,250,582
Asia	46,160,370	37,586,903
Others	1,005,393	716,657
	<u>\$80,181,475</u>	<u>\$64,554,142</u>

(b) Non-current assets:

	As of December 31,	
	2020	2019
Taiwan	\$12,546,865	\$8,284,065
Hong Kong	30	31
Japan	1,145	2,028
Others	602,077	586,754
	<u>\$13,150,117</u>	<u>\$8,872,878</u>

C. Major customers representing at least 10% of gross sales:

Customer Name	Years Ended December 31,	
	2020	2019
A	\$18,412,721	\$14,829,881
B	12,165,652	9,002,250

E. Parent Company Only Financial Statements

NOVATEK MICROELECTRONICS CORP.

Parent Company Only Financial Statements for the Years Ended December 31, 2020 and 2019 with Independent Auditors' Report

Independent Auditors' Report

The Board of Directors and Shareholders
Novatek Microelectronics Corp.

Opinion

We have audited the accompanying parent company only balance sheets of Novatek Microelectronics Corp. as of December 31, 2020 and 2019, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2020 and 2019, and notes to the parent company only financial statements, including the summary of significant accounting policies (together referred as “the parent company only financial statements”).

In our opinion, based on our audits and the reports of other auditors (please refer to the section “Other Matter — Making Reference to the Audits of Component Auditors” of our audit report) the parent company only financial statements referred to above present fairly, in all material respects, the financial position of Novatek Microelectronics Corp. as of December 31, 2020 and 2019, and its financial performance and cash flows for the years ended December 31, 2020 and 2019, in conformity with the requirements of 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 Novatek Microelectronics Corp. in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of our auditors, 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 2020 parent company only financial statements. 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.

Revenue recognition

Novatek Microelectronics Corp. is mainly engaged in manufacturing and sales of integrated circuit products, and recognized NT\$79,867,485 thousand as net sales for the year ended December 31, 2020. Since the trading terms of the sales orders varied with demand, the management's judgement is exercised to determine when the performance obligations were satisfied. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal controls within the sales cycle which are related to the timing of revenue recognition; performing test of details on selected samples and reviewing the significant terms of sales agreements and tracing to relevant documentation of transactions; performing confirmation procedures on key terms of sales agreements on selected samples; performing cut-off procedures on selected samples for a period before and after the reporting date, tracing to relevant documentation to verify the appropriateness of the timing of revenue recognition, and reviewing significant sales reversals in subsequent period.

We also considered the appropriateness of the disclosures of sales of goods. Please refer to Note 4 and 6 in notes to parent company only financial statements.

Valuation for inventories

Novatek Microelectronics Corp. recognized NT\$8,156,212 thousand as net inventories as of December 31, 2020, the amount was significant to parent company only financial statements. Novatek Microelectronics Corp. operates in an industry where technologies are upgrading rapidly and thereby their inventories become obsolete speedily. Novatek Microelectronics Corp.'s policy of provision for inventory is based on those inventories aged over a certain period of time and identified as obsolete or damaged. The amount of inventories is material, the types of inventories vary and the estimation of net realizable value for individually obsolete or damaged inventories is subject to management's judgment. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) evaluating the appropriate accounting policies of slow-moving and obsolete inventories; selecting samples to evaluate and test the design and operating effectiveness of internal controls of the valuation of inventories by management; selecting samples to test the correctness of calculating inventory aging and recalculating the amount of inventory allowance; selecting samples to evaluate and test the net realizable value used by management; evaluating management's inventory count plan and selecting important inventory locations to observe physical inventory count for confirming inventory quantity and status.

We also assessed the adequacy of disclosures of inventories. Please refer to Notes 5 and 6 in notes to parent company only financial statements.

Other Matter — Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain investments accounted for under the equity method whose statements are based solely on the reports of other auditors. These investments under equity method amounted to NT\$186,672 thousand and NT\$135,173 thousand, representing 0.32% and 0.29% of parent company only total assets as of December 31, 2020 and 2019, respectively. The related shares of profits of subsidiaries and associates accounted for using the equity method amounted to NT\$59,605 thousand and NT\$25,874 thousand, representing 0.41% and 0.26% of the parent company only income before tax for the years ended December 31, 2020 and 2019, respectively, and the related shares of other comprehensive income (loss) from the shares of profits of subsidiaries and associates accounted for using the equity method both amounted to NT\$0, representing 0% of the parent company only other comprehensive income (loss) for the years ended December 31, 2020 and 2019.

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 requirements of 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 ability to continue as a going concern of Novatek Microelectronics Corp. disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Novatek Microelectronics Corp. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of Novatek Microelectronics Corp.

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we 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 internal control of Novatek Microelectronics Corp.
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 ability to continue as a going concern of Novatek Microelectronics Corp. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Novatek Microelectronics Corp. 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 accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Novatek Microelectronics Corp. to express an opinion on the parent company only 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 2020 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

/s/Chen, Chih-Chung

/s/Kuo, Shao-Pin

Ernst & Young, Taiwan
February 25, 2021

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying parent company only financial statements are intended only to present the parent company only financial position, results of operations 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 parent company only financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP.

Parent Company Only Balance Sheets

As of December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2020		December 31, 2019		Liabilities and Equity	Notes	December 31, 2020		December 31, 2019	
Current assets						Current liabilities					
Cash and cash equivalents	4, 6(1)	\$ 22,023,108	38.01	\$ 17,142,128	36.67	Contract liabilities, current	6(14)	\$ 328,815	0.57	\$ 41,262	0.09
Trade receivables, net	4, 6(2), 6(15)	12,608,749	21.76	12,777,893	27.34	Trade payables		7,528,440	12.99	5,799,097	12.41
Trade receivables from related parties, net	4, 6(2), 6(15), 7	812,084	1.40	601,321	1.29	Trade payables to related parties	7	2,195,847	3.79	1,903,191	4.07
Other receivables	6(3)	319,520	0.55	251,733	0.54	Other payables		5,265,353	9.09	3,819,023	8.17
Inventories, net	4, 6(4)	8,156,212	14.07	6,262,571	13.40	Current income tax liabilities	4, 6(20)	1,863,027	3.21	959,006	2.05
Prepayments		217,906	0.38	225,125	0.48	Lease liabilities, current	4, 6(16)	36,923	0.06	33,900	0.07
Total current assets		44,137,579	76.17	37,260,771	79.72	Other current liabilities	4, 6(11)	131,364	0.23	136,377	0.29
						Total current liabilities		17,349,769	29.94	12,691,856	27.15
Non-current assets						Non-current liabilities					
Financial assets measured at fair value through other comprehensive income, non-current	4, 6(5)	2,880,546	4.97	1,438,223	3.08	Deferred income tax liabilities	4, 6(20)	313,239	0.54	305,323	0.65
Investments accounted for using the equity method	4, 6(6)	1,444,792	2.49	1,367,717	2.93	Lease liabilities, non-current	4, 6(16)	172,386	0.30	203,543	0.44
Property, plant and equipment	4, 6(7)	6,044,344	10.43	3,295,648	7.05	Net defined benefit liabilities, non-current	4, 6(12), 6(17)	167,860	0.29	162,194	0.35
Right-of-use assets	4, 6(16)	206,119	0.36	235,662	0.50	Deposits received		-	-	299,800	0.64
Intangible assets	4, 6(8), 6(10)	2,542,806	4.39	2,692,279	5.76	Total non-current liabilities		653,485	1.13	970,860	2.08
Deferred income tax assets	4, 6(20)	544,543	0.94	429,281	0.92						
Other financial assets, non-current	4, 8	11,300	0.02	6,500	0.01	Total liabilities		18,003,254	31.07	13,662,716	29.23
Other assets, non-current	6(9)	134,428	0.23	14,955	0.03	Equity					
Total non-current assets		13,808,878	23.83	9,480,265	20.28	Share capital	6(13)				
						Common stock		6,085,115	10.50	6,085,115	13.02
						Capital surplus	6(13)	2,375,054	4.10	3,287,822	7.03
						Retained earnings	6(13)				
						Legal reserve		9,228,315	15.92	8,435,574	18.05
						Special reserve		248,629	0.43	464,450	0.99
						Undistributed earnings		20,807,195	35.91	15,053,988	32.21
						Other equity		1,198,895	2.07	(248,629)	(0.53)
						Total equity		39,943,203	68.93	33,078,320	70.77
Total assets		\$ 57,946,457	100.00	\$ 46,741,036	100.00	Total liabilities and equity		\$ 57,946,457	100.00	\$ 46,741,036	100.00

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP.

Parent Company Only Statements of Comprehensive Income

For The Years Ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

Description	Notes	For the years ended December 31,			
		2020		2019	
Operating revenues	4, 6(14), 7	\$ 79,867,485	100.00	\$ 64,326,485	100.00
Operating costs	6(4), 6(17), 7	(51,947,351)	(65.04)	(43,776,575)	(68.06)
Gross profit		27,920,134	34.96	20,549,910	31.94
Unrealized intercompany profit		(3,211)	-	(64)	-
Realized intercompany profit		3,211	-	64	-
Gross profit, net		27,920,134	34.96	20,549,910	31.94
Operating expenses	6(8), 6(15), 6(16), 6(17), 7				
Selling expenses		(350,315)	(0.44)	(324,791)	(0.50)
Administrative expenses		(1,494,309)	(1.87)	(1,252,995)	(1.95)
Research and development expenses		(10,567,406)	(13.23)	(8,425,808)	(13.10)
Expected credit losses		(80,000)	(0.10)	-	-
Total operating expenses		(12,492,030)	(15.64)	(10,003,594)	(15.55)
Operating income		15,428,104	19.32	10,546,316	16.39
Non-operating income and expenses	6(18)				
Interest income		99,932	0.13	122,869	0.19
Other income		28,147	0.03	45,456	0.07
Other gains and losses	4	(406,882)	(0.51)	(140,913)	(0.22)
Financial costs		(4,609)	(0.01)	(44,834)	(0.07)
Share of profit of subsidiaries and associates accounted for using the equity method		(607,453)	(0.76)	(719,485)	(1.11)
Total non-operating income and expenses		(890,865)	(1.12)	(736,907)	(1.14)
Income before income tax		14,537,239	18.20	9,809,409	15.25
Income tax expense	4, 6(20)	(2,720,000)	(3.40)	(1,882,000)	(2.92)
Net income		11,817,239	14.80	7,927,409	12.33
Other comprehensive income	6(19)				
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans	6(12)	(10,509)	(0.01)	(27,519)	(0.04)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income		1,445,496	1.81	246,160	0.38
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income of subsidiaries and associates accounted for using the equity method		(2,246)	-	(295)	-
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		4,274	-	(30,043)	(0.05)
Other comprehensive income (net of income tax)		1,437,015	1.80	188,303	0.29
Total comprehensive income		<u>\$ 13,254,254</u>	<u>16.60</u>	<u>\$ 8,115,712</u>	<u>12.62</u>
Earnings per share	6(21)				
Basic earnings per share (in New Taiwan Dollars)		<u>\$ 19.42</u>		<u>\$ 13.03</u>	
Diluted earnings per share (in New Taiwan Dollars)		<u>\$ 19.40</u>		<u>\$ 13.02</u>	

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP.

Parent Company Only Statements of Changes in Equity

For The Years Ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Description	Common stock	Capital surplus	Retained earnings			Other adjustments		Total equity
			Legal reserve	Special reserve	Unappropriated earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	
Balance as of January 1, 2019	\$ 6,085,115	\$ 3,287,822	\$ 7,796,511	\$ 89,646	\$ 13,522,866	\$ (100,964)	\$ (363,487)	\$ 30,317,509
Appropriation and distribution of 2018 earnings:								
Legal reserve	-	-	639,063	-	(639,063)	-	-	-
Special reserve	-	-	-	374,804	(374,804)	-	-	-
Cash dividends	-	-	-	-	(5,354,901)	-	-	(5,354,901)
Net income for the year ended December 31, 2019	-	-	-	-	7,927,409	-	-	7,927,409
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	(27,519)	(30,043)	245,865	188,303
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	7,899,890	(30,043)	245,865	8,115,712
Balance as of December 31, 2019	\$ 6,085,115	\$ 3,287,822	\$ 8,435,574	\$ 464,450	\$ 15,053,988	\$ (131,007)	\$ (117,622)	\$ 33,078,320
Balance as of January 1, 2020	\$ 6,085,115	\$ 3,287,822	\$ 8,435,574	\$ 464,450	\$ 15,053,988	\$ (131,007)	\$ (117,622)	\$ 33,078,320
Appropriation and distribution of 2019 earnings:								
Legal reserve	-	-	792,741	-	(792,741)	-	-	-
Special reserve	-	-	-	(215,821)	215,821	-	-	-
Cash dividends	-	-	-	-	(5,476,603)	-	-	(5,476,603)
Cash dividends distributed from capital surplus	-	(912,768)	-	-	-	-	-	(912,768)
Net income for the year ended December 31, 2020	-	-	-	-	11,817,239	-	-	11,817,239
Other comprehensive income for the year ended December 31, 2020	-	-	-	-	(10,509)	4,274	1,443,250	1,437,015
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	11,806,730	4,274	1,443,250	13,254,254
Balance as of December 31, 2020	\$ 6,085,115	\$ 2,375,054	\$ 9,228,315	\$ 248,629	\$ 20,807,195	\$ (126,733)	\$ 1,325,628	\$ 39,943,203

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP.

Parent Company Only Statements of Cash Flows

For The Years Ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Description	For the years ended December 31,		Description	For the years ended December 31,	
	2020	2019		2020	2019
Cash flows from operating activities:			Cash flows from investing activities:		
Income before income tax	\$ 14,537,239	\$ 9,809,409	Acquisition of financial assets measured at fair value through other comprehensive income	-	(84,000)
Adjustments for:			Proceeds from capital return of financial assets measured at fair value through other comprehensive income	3,173	3,500
The profit or loss items:			Acquisition of investments accounted for using the equity method	(682,500)	(1,025,590)
Depreciation	671,289	530,382	Acquisition of property, plant and equipment	(3,299,414)	(1,469,201)
Amortization	260,231	283,536	Proceeds from disposal of property, plant and equipment	-	648
Expected credit losses	80,000	-	Increase in refundable deposits	(1,009)	(713)
Interest expense	4,609	44,834	Acquisition of intangible assets	(110,758)	(303,105)
Interest income	(99,932)	(122,869)	Increase in prepayment for equipment	(201,981)	(118,951)
Share of profit of subsidiaries and associates accounted for using the equity method	607,453	719,485	Net cash used in investing activities	(4,292,489)	(2,997,412)
Gains on disposal or retirement of property, plant and equipment	-	(648)			
Unrealized losses from exchange foreign currency	7,353	3,785	Cash flows from financing activities:		
Others	-	(81)	Decrease in short-term loans	-	(2,191,900)
Changes in operating assets and liabilities :			Decrease in deposits received	(307,153)	-
Trade receivables	89,144	71,523	Cash payment for the principal portion of the lease liabilities	(35,645)	(31,904)
Trade receivables from related parties	(210,763)	(218,114)	Cash dividends	(6,389,371)	(5,354,901)
Other receivables	(68,813)	(8,340)	Interest paid	(4,609)	(46,462)
Inventories	(1,893,641)	684,983	Net cash used in financing activities	(6,736,778)	(7,625,167)
Prepayments	7,219	(62,130)			
Other financial assets	(4,800)	(300)			
Contract liabilities	287,553	(7,947)			
Trade payables	1,729,343	(2,121,016)			
Trade payables to related parties	292,656	(396,571)			
Other payables	1,446,330	558,860			
Other current liabilities	(5,013)	(22,410)			
Net defined benefit liabilities	(4,843)	(5,865)			
Cash generated from operating activities	17,732,614	9,740,506			
Interest received	100,958	122,184	Net increase (decrease) in cash and cash equivalents	4,880,980	(2,825,371)
Income tax paid	(1,923,325)	(2,065,482)	Cash and cash equivalents at the beginning of the year	17,142,128	19,967,499
Net cash generated by operating activities	15,910,247	7,797,208	Cash and cash equivalents at the end of the year	\$ 22,023,108	\$ 17,142,128

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements

For The Years Ended December 31, 2020 and 2019

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

1. HISTORIES AND ORGANIZATION

Novatek Microelectronics Corporation ("the Company") was incorporated in Hsinchu Science-Based Industrial Park on May 28, 1997. The Company is mainly engaged in researching, developing, manufacturing and sales of integrated circuit chips speech, communication, computer peripheral, LCD driver IC system, embedded MCU, DSP and system. The Company's shares are traded in Taiwan Stock Exchange. The Company's registered office and the main business location is at 2F, No.13, Innovation Road I, Hsinchu Science Park, Hsinchu 300, Taiwan R.O.C.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The parent company only financial statements of the Company for the years ended December 31, 2020 and 2019 were authorized for issue by the Board of Directors on February 25, 2021.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2020. The application of these new standards and amendments had no material impact on the Company.

- (2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are recognized by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 4, 7, 9, 16 and IAS 39	"Interest Rate Benchmark Reform — Phase 2"(Amendment)	January 1, 2021

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2021. All standards and interpretations have no material impact on the Company.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (3) Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 10 and IAS 28	“Consolidated financial statements” and “Investments in Associates and Joint Ventures” (Amendment)	To be determined by IASB
IFRS 17	“Insurance Contracts”	January 1, 2023
IAS 1	“Classification of Liabilities as Current or Non-current” (Amendment)	January 1, 2023
IFRS 3, IAS 16 and IAS 37	“Business Combination”, “Property, Plant and Equipment” and “Provisions, Contingent Assets” (Amendment) and the Annual Improvements	January 1, 2022

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date of issuance of the Company’s financial statements. The local effective dates are to be determined by FSC. All standards and interpretations have no material impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The parent company only financial statements for the years ended December 31, 2020 and 2019 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”).

(2) Basis of preparation

According to Article 21 of the Regulations, the profit or loss and other comprehensive income presented in parent company only financial statements will be the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial statements prepared on a consolidated basis. Therefore, the investments in subsidiaries will be disclosed under “Investments accounted for using the equity method” in parent company only financial report and change in value will be adjusted.

The parent company only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The parent company only financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(3) Foreign currency transactions

The Company's parent company only financial statements are presented in thousands of NT\$ unless otherwise stated.

Transactions in foreign currencies are initially recorded by the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IFRS 9 Financial Instruments are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(4) Translation of financial statements in foreign currency

Each foreign entity of the Company determines its function currency upon its primary economic environment and items included in the financial statements of each entity are measured using that functional currency. The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is adjustment in “investment accounted for using the equity method”. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(5) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

- A. The Company expects to settle the liability in its normal operating cycle.
- B. The Company holds the liability primarily for the purpose of trading.
- C. The liability is due to be settled within twelve months after the reporting period.
- D. The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within twelve months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- (a) the Company's business model for managing the financial assets and
- (b) the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as trade receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- (b) 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.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (a) purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) 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.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described below:

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(c) Interest revenue is calculated by using the effective interest method. This 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 assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- II. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Company made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial assets measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

B. Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The Company measures expected credit losses of a financial instrument in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- (a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

C. Derecognition of financial assets

A financial asset is derecognized when:

- (a) The rights to receive cash flows from the asset have expired.
- (b) The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- (c) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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Notes to Parent Company Only Financial Statements (Continued)

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On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (b) a company of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the company is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(8) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. in the principal market for the asset or liability, or
- B. in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(9) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials — Actual purchase cost measured using weighted-average method.

Finished goods and work in progress — Cost of direct materials and manufacturing overheads.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(10) Investments accounted for using the equity method

According to article 21 of the Regulations, the investments in subsidiaries will be disclosed under “Investments accounted for using the equity method” and change in value will be adjusted to comply. The profit or loss and other comprehensive income presented in parent company only financial reports will be the same as the allocations of profit or loss and other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. The difference of the accounting treatment between the parent company only basis and the consolidated basis are adjusted under “investments accounted for using the equity method,” “share of profit of subsidiaries and associates accounted for using the equity method” and “share of other comprehensive income of subsidiaries and associates accounted for using the equity method.”

(11) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and facilities	6~51 years
Machinery and equipment	4~6 years
Moulding equipment	2 years
Other equipment	2~6 years

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively as changes in accounting estimates, if appropriate.

(12) Leases

The Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use, has both of the following:

- A. the right to obtain substantially all of the economic benefits from use of the identified asset; and
- B. the right to direct the use of the identified asset.

For a contract that is, or contains, a lease, the Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Company for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Company estimates the stand-alone price, maximising the use of observable information.

Company as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company recognizes right-of-use asset and lease liability for all leases which the Company is the lessee of those lease contracts.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- A. fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- B. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- C. amounts expected to be payable by the lessee under residual value guarantees;
- D. the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- E. payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company measures the lease liability on an amortised cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- A. the amount of the initial measurement of the lease liability;
- B. any lease payments made at or before the commencement date, less any lease incentives received;
- C. any initial direct costs incurred by the lessee; and
- D. an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Company measures the right-of-use applying a cost model.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Company accounted for as short-term leases or leases of low-value assets, the Company presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements of comprehensive income.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

For short-term leases or leases of low-value assets, the Company elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

(13) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Company can demonstrate:

- A. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- B. its intention to complete and its ability to use or sell the asset;
- C. how the asset will generate future economic benefits;
- D. the availability of resources to complete the asset;
- E. the ability to measure reliably the expenditure during development.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

A summary of the policies applied to the Company's intangible assets is as follows:

	<u>Expertise capitalized</u>	<u>Computer software</u>	<u>Other intangible assets</u>
Useful lives	Finite (5 years)	Finite (3 years)	Finite (3 years)
Amortization method used	Amortized on a straight-line basis over the period of the patent	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight-line basis over the estimated useful life
Internally generated or acquired	Acquired	Acquired	Acquired

(14) Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or the Company of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

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A cash generating unit, or the groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(15) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(16) Sales returns and allowances

The Company estimates sales returns and allowances based on past experience and other known factors in accordance with IFRS 15, which are recognized as deduction of operating revenue and provisions.

(17) Revenue recognition

The Company's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policy is explained as follows:

Sale of goods

The Company manufactures and sells goods. Sales are recognized when control of the goods is transferred to the customers and the goods are delivered to the customers. The main products of the Company are Display driver IC and SoC and revenue is recognized based on the consideration stated in the contract.

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(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The credit period of the Company's sale of goods is from 60 to 150 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Company has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

Rendering of services

Revenue from the rendering of services primarily comes from non-recurring engineering, which is recognized based on the stage of completion of the contracts. Most of the contractual considerations of the Company are collected evenly throughout the contract period. When the Company has performed the services to customers but does not has a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Company has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component arises.

(18) Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the Company's financial statements.

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees' subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- A. the date of the plan amendment or curtailment, and
- B. the date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(19) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities 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. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's parent company only financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(1) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 6.

(2) Valuation for inventories

Inventories are valued at lower of cost and net realizable value, so the Company need to use the judgments and estimates to decide the net realizable value at the end of the reporting period. Estimation of the fundamental about the inventory valuation is nature of the inventory, the value in used calculation based on historical experience and market price. Please refer to Note 6.

(3) Post-employment benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases. Please refer to Note 6 for more details.

(4) Revenue recognition — sales returns and allowance

The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, revenue is recognized to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Please refer to Note 6 for more details.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(5) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the market approach and asset approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(6) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6 for disclosure on unrecognized deferred tax assets of the Company as of December 31, 2020.

6. CONTENT OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,	
	2020	2019
Cash on hand	\$1,150	\$1,150
Checking and saving accounts	5,414,637	282,323
Fixed-term deposits	16,607,321	16,778,561
Cash equivalents		
Puttable notes — commercial paper	-	80,094
	<u>\$22,023,108</u>	<u>\$17,142,128</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(2) Trade receivables and trade receivables from related parties

	As of December 31,	
	2020	2019
Trade receivables	\$13,336,547	\$13,425,691
Less: loss allowance	(727,798)	(647,798)
	12,608,749	12,777,893
Trade receivables from related parties	812,084	601,321
Less: loss allowance	-	-
	812,084	601,321
	<u>\$13,420,833</u>	<u>\$13,379,214</u>

Trade receivables were not pledged.

Trade receivables are generally on 60-150 day terms. Please refer to Note 6(15) for more details on loss allowance of trade receivables for the years ended December 31, 2020 and 2019. Please refer to Note 12 for more details on credit risk management.

(3) Other receivables

	As of December 31,	
	2020	2019
Income tax refund receivable	\$317,629	\$248,816
Interest receivable	1,891	2,917
	<u>\$319,520</u>	<u>\$251,733</u>

(4) Inventories

	As of December 31,	
	2020	2019
Raw materials	\$803,127	\$496,251
Supplies	410,908	374,324
Work in progress	4,560,264	2,899,758
Finished goods	2,381,913	2,492,238
	<u>\$8,156,212</u>	<u>\$6,262,571</u>

Expenses and losses incurred on inventories for the years ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31,	
	2020	2019
Cost of inventories sold	\$51,291,825	\$43,667,105
Allowance for inventory valuation and obsolescence loss	657,000	111,000
Revenue from sale of scraps	(1,474)	(1,530)
	<u>\$51,947,351</u>	<u>\$43,776,575</u>

Inventories were not pledged.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(5) Financial assets measured at fair value through other comprehensive income

	As of December 31,	
	2020	2019
Equity instrument investments measured at fair value through other comprehensive income, non-current:		
Unlisted companies' stocks		
SHIEH YONG Investment Co., Ltd.	\$2,407,239	\$1,033,671
Unitech Capital Inc.	212,049	164,981
TriKnight Capital Corporation	261,258	239,571
	<u>\$2,880,546</u>	<u>\$1,438,223</u>

The Company acquire NT\$3,173 thousand and NT\$3,500 thousand for the return of capital from TriKnight Capital Corporation which were reported under equity instrument investments measured at fair value through other comprehensive income in 2020 and 2019, respectively.

(6) Investments accounted for using the equity method

Investees	As of			
	December 31, 2020		December 31, 2019	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:				
Novatek Investment Co., Ltd.	\$532,793	100%	\$533,742	100%
Cheertek International Inc.	35,420	100%	24,361	100%
Novatek International (BVI) Ltd.	688,740	100%	673,031	100%
NTK International Limited (NTK)	186,672	100%	135,173	100%
Novatek Japan Kabushiki-Kaisha (NJKK)	1,167	100%	1,410	100%
	<u>\$1,444,792</u>		<u>\$1,367,717</u>	

Investments in subsidiaries are expressed as "Investments accounted for using the equity method" in parent company only financial statements with necessary valuation adjustments.

For the years ended December 31, 2020 and 2019 the Company increased Novatek International (BVI) Ltd.'s capital in the amount of NT\$503,900 thousand and NT\$590,400 thousand, respectively.

For the years ended December 31, 2020 and 2019 the Company increased Cheertek International Inc.'s capital in the amount of NT\$178,600 thousand and NT\$155,190 thousand, respectively.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

For the year ended December 31, 2019 the Company increased Novatek Investment Co., Ltd.'s capital in the amount of NT\$280,000 thousand.

Investments accounted for using the equity method were not pledged.

(7) Property, plant and equipment

	As of December 31,	
	2020	2019
Owner occupied property, plant and equipment	\$6,044,344	\$3,295,648

A. Owner occupied property, plant and equipment

	Buildings and facilities	Machinery and equipment	Moulding equipment	Other equipment	Construction in progress	Total
Cost:						
As of January 1, 2020	\$1,778,493	\$2,536,968	\$122,548	\$52,625	\$773,143	\$5,263,777
Additions	22,814	622,475	79,239	6,122	2,568,764	3,299,414
Disposals	(750)	(107,968)	(21,389)	(130)	-	(130,237)
Other changes	20,460	56,877	-	6,180	-	83,517
As of December 31, 2020	<u>\$1,821,017</u>	<u>\$3,108,352</u>	<u>\$180,398</u>	<u>\$64,797</u>	<u>\$3,341,907</u>	<u>\$8,516,471</u>
As of January 1, 2019	\$1,745,929	\$1,834,674	\$89,315	\$46,459	\$-	\$3,716,377
Additions	4,530	751,499	65,522	15,078	773,143	1,609,772
Disposals	(1,135)	(188,773)	(32,289)	(8,912)	-	(231,109)
Other changes	29,169	139,568	-	-	-	168,737
As of December 31, 2019	<u>\$1,778,493</u>	<u>\$2,536,968</u>	<u>\$122,548</u>	<u>\$52,625</u>	<u>\$773,143</u>	<u>\$5,263,777</u>
Depreciation and impairment:						
As of January 1, 2020	\$881,892	\$994,685	\$55,322	\$36,230	\$-	\$1,968,129
Depreciation	52,975	516,522	58,212	6,526	-	634,235
Disposals	(750)	(107,968)	(21,389)	(130)	-	(130,237)
As of December 31, 2020	<u>\$934,117</u>	<u>\$1,403,239</u>	<u>\$92,145</u>	<u>\$42,626</u>	<u>\$-</u>	<u>\$2,472,127</u>
As of January 1, 2019	\$836,052	\$776,453	\$52,999	\$37,118	\$-	\$1,702,622
Depreciation	46,975	407,005	34,612	8,024	-	496,616
Disposals	(1,135)	(188,773)	(32,289)	(8,912)	-	(231,109)
As of December 31, 2019	<u>\$881,892</u>	<u>\$994,685</u>	<u>\$55,322</u>	<u>\$36,230</u>	<u>\$-</u>	<u>\$1,968,129</u>
Net carrying amount as of:						
December 31, 2020	<u>\$886,900</u>	<u>\$1,705,113</u>	<u>\$88,253</u>	<u>\$22,171</u>	<u>\$3,341,907</u>	<u>\$6,044,344</u>
December 31, 2019	<u>\$896,601</u>	<u>\$1,542,283</u>	<u>\$67,226</u>	<u>\$16,395</u>	<u>\$773,143</u>	<u>\$3,295,648</u>

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. Components of buildings with different useful lives are main building structure, electromechanical and air conditioning units, which are depreciated over 21~51 years and 6~21 years, respectively.

C. The Company's property, plant and equipment were not pledged.

(8) Intangible assets

	Computer software	Goodwill	Expertise capitalized	Others	Total
Cost:					
As of January 1, 2020	\$305,171	\$2,080,084	\$2,321,121	\$91,000	\$4,797,376
Additions	38,968	-	71,790	-	110,758
Decreases	(9,299)	-	-	-	(9,299)
Other changes	-	-	-	-	-
As of December 31, 2020	<u>\$334,840</u>	<u>\$2,080,084</u>	<u>\$2,392,911</u>	<u>\$91,000</u>	<u>\$4,898,835</u>
As of January 1, 2019	\$326,498	\$2,080,084	\$2,058,310	\$91,000	\$4,555,892
Additions	40,294	-	262,811	-	303,105
Decreases	(62,764)	-	-	-	(62,764)
Other changes	1,143	-	-	-	1,143
As of December 31, 2019	<u>\$305,171</u>	<u>\$2,080,084</u>	<u>\$2,321,121</u>	<u>\$91,000</u>	<u>\$4,797,376</u>
Amortization and impairment:					
As of January 1, 2020	\$242,842	\$-	\$1,781,366	\$80,889	\$2,105,097
Amortization	50,339	-	199,781	10,111	260,231
Decreases	(9,299)	-	-	-	(9,299)
As of December 31, 2020	<u>\$283,882</u>	<u>\$-</u>	<u>\$1,981,147</u>	<u>\$91,000</u>	<u>\$2,356,029</u>
As of January 1, 2019	\$271,735	\$-	\$1,562,034	\$50,556	\$1,884,325
Amortization	33,871	-	219,332	30,333	283,536
Decreases	(62,764)	-	-	-	(62,764)
As of December 31, 2019	<u>\$242,842</u>	<u>\$-</u>	<u>\$1,781,366</u>	<u>\$80,889</u>	<u>\$2,105,097</u>
Net carrying amount as of:					
December 31, 2020	<u>\$50,958</u>	<u>\$2,080,084</u>	<u>\$411,764</u>	<u>\$-</u>	<u>\$2,542,806</u>
December 31, 2019	<u>\$62,329</u>	<u>\$2,080,084</u>	<u>\$539,755</u>	<u>\$10,111</u>	<u>\$2,692,279</u>

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Amortization expense of intangible assets under the statement of comprehensive income:

	Years ended December 31,	
	2020	2019
Research and development expenses	\$229,248	\$266,498
Administrative expenses	\$30,983	\$17,038

(9) Other non-current assets

	As of December 31,	
	2020	2019
Prepayments for equipment	\$127,382	\$8,918
Refundable deposits	7,046	6,037
	\$134,428	\$14,955

(10) Impairment testing of goodwill

The Company is a single operating segment, also a cash-generating unit, based on which, the Company assesses whether the goodwill is impaired annually. The major revenue of the Company comes from flat panel display and integrated circuit design products, assessments are as follows:

The recoverable amounts of the cash-generating unit have been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the change in demand for products and services. The pre-tax discount rate applied to cash flow projections is 16.06% in 2020 and 15.21% in 2019. Cash flows beyond the five-year period are extrapolated using the growth rate of 0.1% in 2020 and 2.8% in 2019. As of December 31, 2020 and 2019, the company did not identify any impairment for goodwill of NT\$2,080,084 thousand.

The calculation of value-in-use for cash-generating units is most sensitive to the following assumptions:

- A. Gross margin
- B. Discount rates
- C. Growth rate used to extrapolate cash flows beyond the budget period

Gross margins — gross margins are based on the actual results in the recent years, and are adjusted with considering the expected future market trend.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Discount rates — the discount rates were estimated based on the weighted average cost of capital (WACC) for the Company, taking into account the particular situations of the Company and its operating segments. The WACC includes both the cost of liabilities and cost of equities. The cost of equities is derived from the expected returns of the Company's investors on capital, where the cost of liabilities is measured by the interest-bearing loans that the Company has obligation to settle.

Growth rates of sales estimates — the growth rates of sales are based on historical experiences. For the reasons explained above, the long-term average growth rate used to extrapolate the budget has been adjusted base on the speed of product innovation and the overall economic environment.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(11) Other current liabilities

	As of December 31,	
	2020	2019
Sales returns and allowance	\$82,237	\$90,076
Advance sales receipts	18,554	19,287
Others	30,573	27,014
	<u>\$131,364</u>	<u>\$136,377</u>

(12) Post-employment benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

For the years ended December 31, 2020 and 2019, the pension expenses recognized under the defined contribution plan are NT\$177,964 thousand and NT\$160,706 thousand, respectively.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Defined benefit plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in one appropriation before the end of March in the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandating, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT\$8,933 thousand to its defined benefit plan during the 12 months beginning after December 31, 2020.

The average duration of the defined benefit plan obligation as of December 31, 2020 and 2019 are 14.64 years and 15.27 years, respectively.

Pension costs recognized in profit or loss for the years ended December 31, 2020 and 2019:

	Years Ended December 31,	
	2020	2019
Current period service costs	\$2,779	\$1,402
Interest income or expense	1,298	1,756
Other adjustments	12	-
	<u>\$4,089</u>	<u>\$3,158</u>

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	As of		
	December 31, 2020	December 31, 2019	January 1, 2019
Defined benefit obligation	\$368,810	\$349,951	\$313,749
Plan assets at fair value	(200,952)	(187,746)	(173,192)
Other adjustments	2	(11)	(17)
Net defined benefit liabilities, non-current recognized on the balance sheets	<u>\$167,860</u>	<u>\$162,194</u>	<u>\$140,540</u>

Reconciliation of liabilities (assets) under the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liabilities (assets)
As of January 1, 2019	\$313,749	\$(173,192)	\$140,557
Current period service costs	1,402	-	1,402
Net interest expense (income)	3,921	(2,165)	1,756
	<u>319,072</u>	<u>(175,357)</u>	<u>143,715</u>
Remeasurements of the net defined benefit liabilities (assets):			
Actuarial gains and losses arising from changes in demographic assumptions	128	-	128
Actuarial gains and losses arising from changes in financial assumptions	22,974	-	22,974
Experience adjustments	9,932	-	9,932
Remeasurements on plan assets	-	(5,515)	(5,515)
	<u>33,034</u>	<u>(5,515)</u>	<u>27,519</u>
Contributions by employer	-	(9,029)	(9,029)
Payments from the plan	(2,155)	2,155	-
As of December 31, 2019	349,951	(187,746)	162,205
Current period service costs	2,779	-	2,779
Net interest expense (income)	2,800	(1,502)	1,298
	<u>355,530</u>	<u>(189,248)</u>	<u>166,282</u>
Remeasurements of the net defined benefit liabilities (assets):			
Actuarial gains and losses arising from changes in demographic assumptions	2,683	-	2,683
Actuarial gains and losses arising from changes in financial assumptions	22,059	-	22,059
Experience adjustments	(8,042)	-	(8,042)
Remeasurements on plan assets	-	(6,191)	(6,191)
	<u>16,700</u>	<u>(6,191)</u>	<u>10,509</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Defined benefit obligation	Fair value of plan assets	Benefit liabilities (assets)
Contributions by employer	-	(8,933)	(8,933)
Payments from the plan	(3,420)	3,420	-
As of December 31, 2020	<u>\$368,810</u>	<u>\$(200,952)</u>	<u>\$167,858</u>

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	As of December 31,	
	2020	2019
Discount rate	0.37%	0.80%
Expected rate of salary increases	3.00%	3.00%

The sensitivity analyses for significant assumption are shown below:

	Years Ended December 31,			
	2020		2019	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increases by 0.5%	\$-	\$(25,733)	\$-	\$(25,427)
Discount rate decreases by 0.5%	28,263	-	27,994	-
Future salary increases by 0.5%	27,369	-	27,228	-
Future salary decreases by 0.5%	-	(25,223)	-	(25,025)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(13) Equities

A. Common stock

As of both December 31, 2020 and 2019, the Company's authorized capital was NT\$7,500,000 thousand and the issued capital was NT\$6,085,115 thousand, each at a par value of NT\$10. The Company has issued 608,512 thousand common shares as of both December 31, 2020 and 2019. Each share has one voting right and a right to receive dividends.

B. Capital surplus

	As of December 31,	
	2020	2019
Additional paid-in capital — common stock	\$-	\$633,745
Additional paid-in capital — conversion of convertible bonds	7,959	7,959
Premium from merger	2,244,432	2,244,432
Employee stock option	122,663	401,686
	<u>\$2,375,054</u>	<u>\$3,287,822</u>

According to the Company Act, the capital surplus shall not be used except for offset a deficit of the company. When a company incurs no loss, it may distribute the capital surplus derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Legal Reserve

According to the Company Act, the company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of the company. When the company incurs no loss, it may distribute the portion of legal serve, which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

D. Special Reserve

With the first-time adoption of IFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Upon first-time adoption of the IFRS, any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemptions under IFRS 1, the company shall set aside an equal amount of special reserve. After the first-time adoption of IFRS, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

E. Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income after tax; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- (d) Special reserve in compliance with the Company Law or Securities and Exchange Law;
- (e) The remaining balance after the mentioned above payment to be made, combining with the undistributed earnings of the proceeding years may be retained or distributed as shareholders' dividends after the approval of the shareholders' meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting. Dividends distributed to shareholders, if any, could be paid in the form of cash or share dividends. At least 50% of the dividends must be paid in the form of cash.

The 2019 and 2018 earnings distribution and dividends per share as approved by the shareholders' meeting on June 9, 2020 and June 5, 2019, respectively, are as follows:

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Appropriation of earnings		Dividend per share (NT\$)	
	Years Ended December 31,			
	2019	2018	2019	2018
Legal reserve	\$792,741	\$639,063		
Special reserve	(215,821)	374,804		
Common stock — cash dividends	5,476,603	5,354,901	9.00	8.80

In addition, the general shareholders' meeting on June 9, 2020 resolved to distribute the additional paid-in capital by cash in the amount of NT\$912,768 thousand, or NT\$1.5 per share.

Please refer to Note 6(17) for further details on employees' compensation and remuneration to directors.

(14) Operating revenue

A. Disaggregation of revenue

	Years Ended December 31,	
	2020	2019
Revenue from contracts with customers		
Sale of goods	\$79,270,503	\$63,943,517
Other operating revenues	596,982	382,968
	<u>\$79,867,485</u>	<u>\$64,326,485</u>
Timing of revenue recognition:		
At a point in time	\$79,316,114	\$64,055,093
Over time	551,371	271,392
	<u>\$79,867,485</u>	<u>\$64,326,485</u>

B. Contract balances

Contract liabilities, current

	Years Ended December 31,	
	2020	2019
Sale of goods	\$941	\$28,477
Other operating revenues	327,874	12,785
	<u>\$328,815</u>	<u>\$41,262</u>

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The significant changes in the Company's balances of contract liabilities for the years ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31,	
	2020	2019
Performance during the period	\$(40,259)	\$(74,990)
Increase in receipts in advance during the period	327,812	67,043

C. Transaction price allocated to unsatisfied performance obligations

There is no need to provide relevant information of the unsatisfied performance obligations as the contract terms with customers about the sales of goods are all shorter than one year.

D. Assets recognized from costs to fulfil a contract: None.

(15) Expected credit losses

	Years Ended December 31,	
	2020	2019
Operating expenses — Expected credit losses		
Trade receivables	\$80,000	\$-

Please refer to Note 12 for more details on credit risk.

The Company measures the credit loss allowance of its trade receivables at an amount equal to lifetime expected credit losses. The assessment of the Company's credit loss allowance as of December 31, 2020 and 2019 are as follows:

The Company consider the grouping of trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follows:

As of December 31, 2020

	Days of trade receivables			Total
	<=60days	61-180 days	>=181 days	
Gross carrying amount	\$10,832,619	\$3,292,153	\$23,859	\$14,148,631
Loss ratio	1%-5%	10%-30%	20%-100%	
Lifetime expected credit losses	209,764	494,175	23,859	727,798
	<u>\$10,622,855</u>	<u>\$2,797,978</u>	<u>\$-</u>	<u>\$13,420,833</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

As of December 31, 2019

	Days of trade receivables			Total
	<=60days	61-180 days	>=181 days	
Gross carrying amount	\$9,469,223	\$4,532,673	\$25,116	\$14,027,012
Loss ratio	1%-5%	5%-30%	20%-100%	
Lifetime expected credit losses	187,175	435,507	25,116	647,798
	<u>\$9,282,048</u>	<u>\$4,097,166</u>	<u>\$-</u>	<u>\$13,379,214</u>

The movement in the provision for impairment of trade receivables as for the years ended December 31, 2020 and 2019 are as follows:

Loss allowance	Year Ended December 31, 2020
As of January 1, 2020	\$647,798
Addition/(reversal) for the current period	80,000
As of December 31, 2020	<u>\$727,798</u>

Loss allowance	Year Ended December 31, 2019
As of January 1, 2019	\$647,798
Addition/(reversal) for the current period	-
As of December 31, 2019	<u>\$647,798</u>

(16) Leases

A. Company as a lessee

The Company leases properties, including real estate such as land, buildings, and other equipment. The lease terms range from 1 to 35 years.

The Company's leases effect on the financial position, financial performance and cash flows are as follow:

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(a) Amounts recognized in the balance sheet

I. Right-of-use assets

The carrying amount of right-of-use assets

	As of December 31,	
	2020	2019
Land	\$166,889	\$174,041
Buildings	39,230	61,621
	<u>\$206,119</u>	<u>\$235,662</u>

During the years ended December 31, 2020 and 2019, the Company's additions to right-of-use assets amounting to NT\$4,326 and NT\$0, respectively.

II. Lease liabilities

	As of December 31,	
	2020	2019
Lease liabilities	<u>\$209,309</u>	<u>\$237,443</u>
Current	\$36,923	\$33,900
Non-current	\$172,386	\$203,543

Please refer to Note 6 (18) for the interest on lease liabilities recognized during the years ended December 31, 2020 and 2019, and refer to Note 12 (5) Liquidity Risk Management for the maturity analysis for lease liabilities as of December 31, 2020 and 2019.

(b) Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	Years Ended December 31,	
	2020	2019
Land	\$9,338	\$8,974
Buildings	27,716	24,792
	<u>\$37,054</u>	<u>\$33,766</u>

(c) Income and costs relating to leasing activities

	Years Ended December 31,	
	2020	2019
The expenses relating to short-term leases	\$2,308	\$1,694
The expenses relating to leases of low-value assets (Not including the short-term leases)	1,386	1,179
Income from subleasing right-of-use assets	3,112	3,360

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(d) Cash outflow relating to leasing activities

During the years ended December 31, 2020 and 2019, the Company's total cash outflows for leases amounting to NT\$43,106 thousand and NT\$38,928 thousand.

(e) Other information relating to leasing activities

Extension option

Some of the Company's property rental agreements contain extension option. In determining the lease terms, the non-cancellable period for which the Company has the right to use an underlying asset, together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. The option is used to maximize operational flexibility in terms of managing contracts. The majority of extension option held is exercisable only by the Company. After the commencement date, the Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term.

(17) Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended December 31, 2020 and 2019:

	Years Ended December 31,					
	2020			2019		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$295,534	\$7,269,090	\$7,564,624	\$256,664	\$5,671,086	\$5,927,750
Labor and health insurance	14,891	276,320	291,211	13,655	250,688	264,343
Pension	11,397	170,656	182,053	10,220	153,644	163,864
Directors' remuneration	-	16,200	16,200	-	16,150	16,150
Others	710	38,290	39,000	488	37,900	38,388
Total amount	<u>\$322,532</u>	<u>\$7,770,556</u>	<u>\$8,093,088</u>	<u>\$281,027</u>	<u>\$6,129,468</u>	<u>\$6,410,495</u>
Depreciation	<u>\$191,323</u>	<u>\$479,966</u>	<u>\$671,289</u>	<u>\$176,719</u>	<u>\$353,663</u>	<u>\$530,382</u>
Amortization	<u>\$-</u>	<u>\$260,231</u>	<u>\$260,231</u>	<u>\$-</u>	<u>\$283,536</u>	<u>\$283,536</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

As of December 31, 2020 and 2019, the Company's average employees totaled to 2,326 and 2,147, respectively, including five non-employee directors as of both December 31, 2020 and 2019, respectively. The Company's average employee benefit expenses for the years ended December 31, 2020 and 2019 were NT\$3,480 thousand and NT\$2,985 thousand, respectively. The Company's average salary expenses for the years ended December 31, 2020 and 2019 were NT\$3,259 thousand and NT\$2,767 thousand, respectively. The Company's average salary expense adjustment for the year ended December 31, 2020 increased by 17.78%.

According to the Articles of Incorporation, no lower than 1% of profit of the current year is distributable as employees' compensation and no higher than 0.4% of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Directors' remuneration, including payments, operational implementation costs and compensations, requires the resolution made by the remuneration committee and the board of directors based on the level of participation and contribution of the directors given to the company operations and reference to similar positions in the same industry. The remunerations of managers and employees are determined based on "Company-Wide Salary Remuneration Rule" and the salary levels of the same job positions in the industry, which shall include fixed salary, employee remuneration, performance bonus, and other remunerations.

The functionality of Supervisors has been replaced by Audit Committee in 2012.

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2020 to be NT\$147,041 thousand and NT\$12,000 thousand, respectively. The employees' compensation and remuneration to directors recognized as salary expense. If the estimated amounts differ from the actual distribution resolved by the board of directors, the Company will recognize the change as an adjustment to income of next year. If the board of directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed as employees' compensation was calculated based on the closing price one day earlier than the date of resolution.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

A resolution was approved at a Board of Directors meeting held on February 25, 2021 to distribute NT\$147,041 thousand and NT\$12,000 thousand in cash as employees' compensation and remuneration to directors, respectively. There was no material difference between the aforementioned approved amounts and the amounts charged against earnings in 2020.

No material differences exist between the estimated amount and the actual distribution NT\$99,285 thousand and NT\$12,000 thousand of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2019.

(18) Non-operating income and expenses

A. Interest income

	Years Ended December 31,	
	2020	2019
Interest income — Financial assets measured at amortized cost	\$99,932	\$122,869

B. Other income

	Years Ended December 31,	
	2020	2019
Rental income	\$3,112	\$3,360
Others	25,035	42,096
	\$28,147	\$45,456

C. Other gains and losses

	Years Ended December 31,	
	2020	2019
Foreign exchange losses, net	\$(403,773)	\$(138,803)
Gains on disposal of property, plant and equipment	-	648
Others	(3,109)	(2,758)
	\$(406,882)	\$(140,913)

D. Finance costs

	Years Ended December 31,	
	2020	2019
Interest on borrowings from bank	\$842	\$40,683
Interest on lease liabilities	3,767	4,151
	\$4,609	\$44,834

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(19) Components of other comprehensive income

For the year ended December 31, 2020

		Reclassification	Other	Income tax relating to	Other
	Arising during	adjustments	comprehensive	components of	comprehensive
	the period	during the	income, before	other	income, net of
		period	tax	income	tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(10,509)	\$-	\$(10,509)	\$-	\$(10,509)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	1,445,496	-	1,445,496	-	1,445,496
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income of subsidiaries and associates accounted for using the equity method	(2,246)	-	(2,246)	-	(2,246)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	4,274	-	4,274	-	4,274
	<u>\$1,437,015</u>	<u>\$-</u>	<u>\$1,437,015</u>	<u>\$-</u>	<u>\$1,437,015</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

For the year ended December 31, 2019

		Reclassification	Other	Income tax relating to	Other
	Arising during	adjustments	comprehensive	components of	comprehensive
	the period	during the	income, before	other	income, net of
		period	tax	comprehensive	tax
				income	
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(27,519)	\$-	\$(27,519)	\$-	\$(27,519)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	246,160	-	246,160	-	246,160
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income of subsidiaries and associates accounted for using the equity method	(295)	-	(295)	-	(295)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(30,043)	-	(30,043)	-	(30,043)
	<u>\$188,303</u>	<u>\$-</u>	<u>\$188,303</u>	<u>\$-</u>	<u>\$188,303</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(20) Income tax

The major components of income tax expense are as follows:

Income tax expense (income) recognized in profit or loss

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Current income tax expense:		
Current income tax charge	\$2,856,642	\$1,882,519
Adjustments in respect of current income tax of prior periods	(38,076)	713
Deferred tax expense:		
Deferred tax expense relating to origination and reversal of temporary differences	(107,346)	3,101
Others	8,780	(4,333)
Total income tax expense	<u>\$2,720,000</u>	<u>\$1,882,000</u>

A reconciliation of tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Accounting profit before tax from continuing operations	<u>\$14,537,239</u>	<u>\$9,809,409</u>
Tax at the domestic rates applicable 20% to profits in the country concerned	2,907,448	1,961,882
Tax effect of revenues exempt from taxation	(259)	(166)
Tax effect of expenses not deductible for tax purposes	196	89
Tax effect of deferred tax assets/ liabilities	(158,089)	(76,185)
Adjustments in respect of current income tax of prior periods	(38,076)	713
Others	8,780	(4,333)
Total income tax expense recognized in profit or loss	<u>\$2,720,000</u>	<u>\$1,882,000</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2020

	Beginning balance as of January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance as of December 31, 2020
Temporary differences						
Unrealized foreign exchange losses (gains)	\$(40,438)	\$12,392	\$-	\$-	\$-	\$(28,046)
Unrealized inventory loss provision	270,739	95,615	-	-	-	366,354
Unrealized loss allowance	101,506	15,756	-	-	-	117,262
Unrealized estimated expense	30,099	5,459	-	-	-	35,558
Goodwill	(264,885)	(20,308)	-	-	-	(285,193)
Unrealized sales returns and allowances	18,015	(1,568)	-	-	-	16,447
Net defined benefit liabilities, non-current	8,922	-	-	-	-	8,922
Deferred tax income/ (expense)		\$107,346	\$-	\$-	\$-	
Net deferred tax assets	\$123,958					\$231,304
Reflected in balance sheet as follows:						
Deferred tax assets	\$429,281					\$544,543
Deferred tax liabilities	\$305,323					\$313,239

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

For the year ended December 31, 2019

	Beginning balance as of January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance as of December 31, 2019
Temporary differences						
Unrealized foreign exchange losses (gains)	\$(95,215)	\$54,777	\$-	\$-	\$-	\$(40,438)
Unrealized inventory loss provision	303,244	(32,505)	-	-	-	270,739
Unrealized loss allowance	101,799	(293)	-	-	-	101,506
Unrealized estimated expense	29,145	954	-	-	-	30,099
Goodwill	(244,577)	(20,308)	-	-	-	(264,885)
Unrealized sales returns and allowances	23,741	(5,726)	-	-	-	18,015
Net defined benefit liabilities, non-current	8,922	-	-	-	-	8,922
Deferred tax income/ (expense)		<u>\$(3,101)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax assets	<u>\$127,059</u>					<u>\$123,958</u>
Reflected in balance sheet as follows:						
Deferred tax assets	<u>\$466,851</u>					<u>\$429,281</u>
Deferred tax liabilities	<u>\$339,792</u>					<u>\$305,323</u>

Unrecognized deferred tax assets

As of December 31, 2020 and 2019, deferred tax assets that have not been recognized both amount to NT\$0.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Company did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's overseas subsidiaries, as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2020 and 2019, deferred tax liability not being recognized for subsidiaries, aggregated to NT\$37,963 thousand and NT\$26,832 thousand, respectively.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The assessment of income tax returns

As of December 31, 2020, the assessment and approval of the income tax returns of the Company is up to 2018.

(21) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The capital structure of the Company is considered complex. Computations are as follows:

	Years Ended December 31,	
	2020	2019
(a) Basic earnings per share		
Profit (in thousand NT\$)	\$11,817,239	\$7,927,409
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand share)	608,512	608,512
Basic earnings per share (NT\$)	\$19.42	\$13.03
(b) Diluted earnings per share		
Profit (in thousand NT\$)	\$11,817,239	\$7,927,409
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand share)	608,512	608,512
Effect of dilution:		
Employee bonus-stock (in thousand share)	521	540
Weighted average number of ordinary shares outstanding after dilution (in thousand share)	609,033	609,052
Diluted earnings per share (NT\$)	\$19.40	\$13.02

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the issuance date of the financial statements.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

<u>Names of related parties</u>	<u>Nature of relationship of the related parties</u>
United Microelectronics Corporation	Director of the Company
HeJian Technology (Suzhou) Co., Ltd.	Other related party
United Semiconductor (Xiamen) Co., LTD.	Other related party
Wavetek Microelectronics Corporation	Other related party
United Semiconductor Japan Co., LTD.	Other related party
NTK International Limited (NTK)	Subsidiary
Novatek Japan Kabushiki-Kaisha	Subsidiary

Significant transactions with related parties

(1) Purchases

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
United Microelectronics Corporation	\$11,731,985	\$10,011,182
HeJian Technology (Suzhou) Co., Ltd.	1,630,049	1,024,076
Others	642,550	121,599
	<u>\$14,004,584</u>	<u>\$11,156,857</u>

The purchase price to the above related party is not comparable to the market due to differentiation of manufacturing process and product specification. Payment terms for related parties were month-end 45 days.

(2) Sales

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
The Company's subsidiaries	<u>\$9,323,323</u>	<u>\$4,953,379</u>

The sales price to the above related parties was determined through mutual agreement based on the market rates. The collection period for domestic sales to related parties was month-end 60 days.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(3) Technology Service

Transaction	Years Ended December 31,	
	2020	2019
United Microelectronics Corporation	\$187,231	\$216,403
Others	19,033	4,477
	<u>\$206,264</u>	<u>\$220,880</u>

(4) The Company's subsidiaries

Transaction	Years Ended December 31,	
	2020	2019
Service expense	<u>\$28,958</u>	<u>\$32,003</u>

(5) Trade receivables from related parties

Names of related parties	Years Ended December 31,	
	2020	2019
The Company's subsidiaries	<u>\$812,084</u>	<u>\$601,321</u>

(6) Trade payables to related parties

Names of related parties	As of December 31,	
	2020	2019
United Microelectronics Corporation	\$1,889,963	\$1,703,128
HeJian Technology (Suzhou) Co., Ltd	287,496	152,996
Others	18,388	47,067
	<u>\$2,195,847</u>	<u>\$1,903,191</u>

Key management personnel compensation

	Years Ended December 31,	
	2020	2019
Short-term employee benefits	\$243,787	\$175,984
Post-employment benefits	1,341	1,317
	<u>\$245,128</u>	<u>\$177,301</u>

8. ASSETS PLEDGE AS SECURITY

The following table lists assets of the Company pledged as security:

Assets pledged for security	As of December 31,		Secured liabilities
	2020	2019	
Other financial assets, non-current	<u>\$11,300</u>	<u>\$6,500</u>	Guarantee for land

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

- (1) The Company recorded certain royalty fee since using certain technology know-how of other companies.
- (2) FOCALTECH ELECTRONICS, LTD. (“FOCALTECH”) filed two applications for preliminary injunctions with the Intellectual Property Court against the Company alleging infringement of Patent No. I529580B “TOUCH DISPLAY DEVICE, DRIVING CIRCUIT AND DRIVING METHOD” on August 29, 2018 and September 20, 2018. The Company received Intellectual Property Court 108-Min-Zhan-Kang-Zi-No.2 Civil Ruling in April, 2019. Intellectual Property Court has two applications for preliminary injunctions filed by FOCALTECH. FOCALTECH filed a complaint in the Intellectual Property Court on September 17, 2018 alleging that the Company’s chips infringe the I529580B patent. The Company received Intellectual Property Court 107-Min-Zhuan-Su-Zi-No.95 Civil Judgment on December 23, 2019. The first instance of the complaint for patent infringement has been OVERRULED by the Intellectual Property Court. The Litigation Proceedings are still processing, and the operations and financial of the Company would not be materially affected by this case.
- (3) The Company signed a real estate purchase contract located in Tai Yuen Hi-Tech Industrial Park on May 16, 2019, and the payment due hereunder was NT\$3,690,000 thousand (taxes included). During the year ended December 31, 2020, the Company has paid an amount of NT\$3,394,800 thousand (taxes included).

10. LOSSES DUE TO MAJOR DISASTERS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. FINANCIAL INSTRUMENTS

- (1) Categories of financial instruments

	As of December 31,	
	2020	2019
<u>Financial assets</u>		
Financial assets measured at fair value		
through other comprehensive income	\$2,880,546	\$1,438,223
Financial assets measured at amortized cost		
Cash and cash equivalents (exclude cash on hand)	22,021,958	17,140,978
Trade receivables	13,740,353	13,630,947

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	As of December 31,	
	2020	2019
Refundable deposits (classified as other non-current assets)	7,046	6,037
Other financial assets, non-current	11,300	6,500
	<u>\$38,661,203</u>	<u>\$32,222,685</u>
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Trade and other payables	\$14,989,640	\$11,521,311
Deposits received	-	299,800
Lease liabilities	209,309	237,443
	<u>\$15,198,949</u>	<u>\$12,058,554</u>

(2) Financial risk management objectives

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies, measures and manages the aforementioned risks based on the Company's policy and risk appetite.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity instruments).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables, there is usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The Company has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analysis is as follows:

When NTD strengthens/weakens against USD by 5%, the profit for the years ended December 31, 2020 and 2019 would decrease/increase by NT\$372,396 thousand and NT\$382,200 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans at variable interest rates.

All of the Company's financial assets and financial liabilities that are exposed to cash flow risk due to fluctuating interest rate are under short term contracts, thus the cash flow risk of fluctuate interest is considerably low.

Equity price risk

The fair value of the Company's unlisted equity securities is susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company's unlisted equity securities are classified under financial assets measured at fair value through other comprehensive income. The Company manages the equity price risk through diversification of equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all equity investment decisions.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for trade receivables) and from its financing activities, including bank deposits and other financial instruments.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria etc. Certain counter parties' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

As of December 31, 2020 and 2019, trade receivables from top ten customers represented 59% and 66% of the total trade receivables of the Company, respectively. The credit concentration risk of other trade receivables is insignificant.

Credit risk from balances with banks and other financial instruments is managed by the Company's treasury in accordance with the Company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions and companies with good credit rating. Consequently, there is no significant credit risk for these counter parties.

The Company adopted IFRS 9 to assess the expected credit losses and the details of the assessment is described as follows:

Level of credit risk	Indicator	Measurement method for expected credit losses	Total carrying amount of trade receivables as of December 31,	
			2020	2019
Simplified approach (Note)	(Note)	Lifetime expected credit losses	\$ 14,148,631	\$ 14,027,012

Note: By using simplified approach (loss allowance is measured at lifetime expected credit losses), including accounts receivables.

(5) Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments and bank borrowings. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Non-derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2020					
Trade and other payables	\$14,989,640	\$-	\$-	\$-	\$14,989,640
Lease liabilities	40,176	33,928	21,406	157,973	253,483
December 31, 2019					
Trade and other payables	\$11,521,311	\$-	\$-	\$-	\$11,521,311
Lease liabilities	37,624	57,566	21,406	168,675	285,271

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2020:

	Deposits received	Lease liabilities	Total liabilities from financing activities
As of January 1, 2020	\$299,800	\$237,443	\$537,243
Cash flows	(307,153)	(35,645)	(342,798)
Non-cash changes			
Addition for the current period	-	4,326	4,326
Lease modification	-	3,185	3,185
Foreign exchange movement	7,353	-	7,353
As of December 31, 2020	\$-	\$209,309	\$209,309

Reconciliation of liabilities for the year ended December 31, 2019:

	Short-term borrowing	Deposits received	Lease liabilities	Total liabilities from financing activities
As of January 1, 2019	\$2,180,765	\$307,150	\$262,921	\$2,750,836
Cash flows	(2,191,900)	-	(31,904)	(2,223,804)
Non-cash changes				
Lease modification	-	-	6,507	6,507
Foreign exchange movement	11,135	(7,350)	-	3,785
Others	-	-	(81)	(81)
As of December 31, 2019	\$-	\$299,800	\$237,443	\$537,243

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(7) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

- (a) The carrying amount of cash and cash equivalents, trade receivables, other receivables, refundable deposit (classified as other non-current assets), other financial assets, non-current and trade and other payables approximate their fair value due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and funds etc.) at the reporting date.
- (c) Fair value of equity instruments without market quotations (including private company equity securities) are estimated using the market approach or asset approach valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information.

B. Fair value of financial instruments measured at amortized cost

Book value of the Company's financial assets and liabilities measured at amortized cost approximate their fair value.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12(8) for fair value measurement hierarchy for financial instruments of the Company.

(8) Fair values measurement hierarchy

A. Fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

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(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 — Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets measured at fair value through other comprehensive income				
Equity instrument	\$-	\$-	\$2,880,546	\$2,880,546

As of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets measured at fair value through other comprehensive income				
Equity instrument	\$-	\$-	\$1,438,223	\$1,438,223

Transfers between Level 1 and Level 2 during the period.

During the years ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

For the year ended December 31, 2020

	Assets
	At fair value through other comprehensive income
	Stocks
As of January 1, 2020	\$1,438,223
Total gains and losses recognized:	
Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	1,445,496
Return of capital	(3,173)
As of December 31, 2020	<u>\$2,880,546</u>

For the year ended December 31, 2019

	Assets
	At fair value through other comprehensive income
	Stocks
As of January 1, 2019	\$1,111,563
Total gains and losses recognized:	
Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	246,160
Return of capital	(3,500)
Additions in 2019	84,000
As of December 31, 2019	<u>\$1,438,223</u>

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

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As of December 31, 2020:

	Valuation	Significant	Quantitative	Relationship	Sensitivity analysis of
	technique	unobservable inputs	information	between inputs and fair value	the input to fair value
Financial assets:					
Financial assets					
measured at					
fair value					
through other					
comprehensive					
income					
Stocks	Asset approach	Discount for lack of marketability and minority interest	10%	The higher the discount for lack of marketability, the lower the fair value estimated	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by NT\$320,061 thousand

As of December 31, 2019:

	Valuation	Significant	Quantitative	Relationship	Sensitivity analysis of
	technique	unobservable inputs	information	between inputs and fair value	the input to fair value
Financial assets:					
Financial assets					
measured at					
fair value					
through other					
comprehensive					
income					
Stocks	Asset approach	Discount for lack of marketability and minority interest	10%	The higher the discount for lack of marketability, the lower the fair value estimated	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by NT\$159,803 thousand

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Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Company's finance Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies at each reporting date.

(9) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

As of December 31, 2020			
	Foreign currencies (In thousands)	Foreign exchange rate	NTD (In thousands)
<u>Financial assets</u>			
Monetary items:			
USD	\$584,288	28.480	\$16,640,531
<u>Financial liabilities</u>			
Monetary items:			
USD	\$322,774	28.480	\$9,192,593
As of December 31, 2019			
	Foreign currencies (In thousands)	Foreign exchange rate	NTD (In thousands)
<u>Financial assets</u>			
Monetary items:			
USD	\$512,000	29.980	\$15,349,755
<u>Financial liabilities</u>			
Monetary items:			
USD	\$257,030	29.980	\$7,705,757

The Company does not disclose all of information regarding the assets and liabilities denominated in foreign currencies due to the varieties of foreign currency transactions. During the years ended December 31, 2020 and 2019, the foreign exchange losses were NT\$403,773 thousand and NT\$138,803 thousand, respectively.

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Notes to Parent Company Only Financial Statements (Continued)

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(10) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. ADDITIONAL DISCLOSURES

(1) The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau:

A. Financing provided to others for the year ended December 31, 2020: None.

B. Endorsement/Guarantee provided to others for the year ended December 31, 2020: None.

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C. Marketable securities held as of December 31, 2020 (excluding subsidiaries):

Held Company Name	Marketable Securities Type and Name		Relationship with the Company	Financial Statement Account	December 31, 2020				Note
					Shares/Units (In thousands)	Carrying Value	Percentage of Ownership (%)	Fair Value	
Novatek Microelectronics Corp.	Common Stock	SHIEH YONG Investment Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income, non-current	115,620	\$2,407,239	15.15%	\$2,407,239	-
	Common Stock	Unitech Capital Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	6,000	212,049	12.00%	212,049	-
	Common Stock	TriKnight Capital Corporation	-	Financial assets measured at fair value through other comprehensive income, non-current	27,333	261,258	4.67%	261,258	-
Novatek Investment Corporation Limited	Preferred Stock	Fortemedia Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	296	4,510	0.23%	4,510	-
	Common Stock	Yobon Technologies, Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	26	150	3.79%	150	-
	Common Stock	TriKnight Capital Corporation	-	Financial assets measured at fair value through other comprehensive income, non-current	13,666	130,629	2.33%	130,629	-
	Common Stock	Perinnova Limited	-	Financial assets measured at fair value through other comprehensive income, non-current	1.9	5,861	19.00%	5,861	-
	Preferred Stock	Gear Radio Limited	-	Financial assets measured at fair value through other comprehensive income, non-current	2,400	39,431	10.99%	39,431	-

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D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2020:

Company Name	Marketable Securities Type and Name		Financial Statement Account	Counter-party	Nature of Relationship	Beginning balance		Acquisition		Disposal				Ending balance	
						Shares /Units (In thousands)	Amount	Shares /Units (In thousands)	Amount	Shares /Units (In thousands)	Amount	Carrying Value	Gains (Losses) on Disposal	Shares /Units (In thousands)	Amount
Novatek Microelectronics Corp.	Common Stock	Novatek International (BVI) Ltd.	Investments accounted for using the equity method	Novatek International (BVI) Ltd.	Subsidiary	56,500	\$673,031	17,000	\$503,900	-	\$-	\$-	\$-	50,000 (Note 2)	\$688,740 (Note 1)

Note 1: Including losses recognizes from investments accounted for using the equity method in the amount of NT\$499,611 thousand, and gains from cumulative-translation adjustment recognized base on exchange rate in the amount of NT\$11,420 thousand.

Note 2: The decrease in a total of 23,500 shares is due to reduce capital and make up for losses.

E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended December 31, 2020: None.

F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2020: None.

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G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the paid-in capital for the year ended December 31, 2020:

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable	
			Purchase/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
Novatek Microelectronics Corp.	NTK International Limited	Subsidiary	Sales	\$(9,323,323)	(11.67)%	month-end 60 days	-	-	\$812,084	5.74%
Novatek Microelectronics Corp.	United Microelectronics Corp.	Directors of the Company	Purchase	11,731,985	35.63%	month-end 45 days	-	-	(1,889,963)	(19.44)%
Novatek Microelectronics Corp.	HeJian Technology (Suzhou) Co., Ltd	Other related party	Purchase	1,630,049	4.95%	month-end 45 days	-	-	(287,496)	(2.96)%
Novatek Microelectronics Corp.	United Semiconductor (Xiamen) Corp.	Other related party	Purchase	612,652	1.86%	month-end 45 days	-	-	(11,643)	(0.12)%
NTK International Limited	Novatek Microelectronics Corp.	Subsidiary	Purchase	9,323,323	100.00%	month-end 60 days	-	-	(812,084)	(100.00)%

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of paid-in capital as of December 31, 2020:

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Novatek Microelectronics Corp.	NTK International Limited	Subsidiary	\$812,084	13.19	-	-	\$812,084	-

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I. Financial instruments and derivative transactions: None.

J. Intercompany relationship and significant intercompany transactions for the year ended December 31, 2020:

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statement Item	Amount	Term	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Novatek Microelectronics Corp.	Novatek Japan Kabushiki-Kaisha	1	Service expenses	\$28,958	According to the contract	(0.04)%
0	Novatek Microelectronics Corp.	NTK International Limited	1	Sales	9,323,323	month-end 60 days	11.66%
0	Novatek Microelectronics Corp.	NTK International Limited	1	Trade receivables	812,084	month-end 60 days	1.40%
1	Novatek International (BVI) Ltd.	Novatek (Suzhou) Co., Ltd.	3	Administrative expenses	113,266	According to the contract	(0.14)%
1	Novatek International (BVI) Ltd.	Novatek (Xian) Co., Ltd.	3	Administrative expenses	187,742	According to the contract	(0.23)%
1	Novatek International (BVI) Ltd.	Novatek (Shenzhen) Co., Ltd.	3	Administrative expenses	209,068	According to the contract	(0.26)%
2	Cheertek International Inc.	Novatek (Shanghai) Co., Ltd.	3	Administrative expenses	171,669	According to the contract	(0.21)%

Note 1: Number should be input in the remark column for intercompany transactions. Here illustrate how to assign numbers to transactions.

1. 0 for parent company.

2. Subsidiaries are given a number in sequence starting with No. 1.

Note 2: There are three types of transactions. Please remark the type of transaction by giving a number to it.

1. Parent to Subsidiary.

2. Subsidiary to Parent.

3. Subsidiaries to Subsidiaries.

Note 3: Asset/liability items are calculated by using the ending balances of the item divided by ending balance of total consolidated assets;

Profit/loss items are calculated by using the amount of the transaction divided by total consolidated revenue.

English Translation of Financial Statements and Footnotes Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(2) Information on investees

Names, locations and related information of investees as of December 31, 2020 (excluding investment in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2020			Net Income (losses) of the Investee	Profits/losses of Investee	Note
				December 31, 2020	December 31, 2019	Shares (In thousands)	Percentage of Ownership	Carrying Value			
Novatek Microelectronics Corp.	Novatek Investment Corporation Limited	Taiwan	Investment	\$580,000	\$580,000	58,000	100.00%	\$532,793	\$1,297	\$1,297	-
	Cheertek International Inc.	Samoa	Investment	209,150	553,560	7,000	100.00%	35,420	(168,527)	(168,527)	-
	Novatek International (BVI) Ltd.	British Virgin Islands	Investment	1,517,830	1,738,970	50,000	100.00%	688,740	(499,611)	(499,611)	-
	NTK International Limited	Kowloon, Hong Kong	Manufacture and sales in related business in the integrated circuit	20,949	20,949	5,000	100.00%	186,672	59,605	59,605	-
	Novatek Japan Kabushiki-Kaisha	Tokyo, Japan	Design, sales and services in related business in the integrated circuit	5,430	5,430	0.4	100.00%	1,167	(217)	(217)	-
Novatek International (BVI) Ltd.	Novatek International (SAMOA) Ltd.	Samoa	Investment	USD4,000 thousand	USD4,000 thousand	4,000	100.00%	106,746	9,028	-	-

English Translation of Financial Statements and Footnotes Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(3) Investment in China

A. Investment situation:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Note 6)	Method of Investment	Accumulated outflow of Investment from Taiwan as of January 1, 2020 (Note 6)	Investment Flows		Accumulated outflow of Investment from Taiwan as of December 31, 2020 (Note 6)	Percentage of Ownership	Net Income (Losses) of the Investee Company	Share of Profits /Losses (Note 5)	Carrying Amount as of December 31, 2020	Accumulated Inward Remittance of Earnings as of December 31, 2020
					Outflow	Inflow						
Novatek (Suzhou) Co., Ltd.	Electronic spare part, trading and consulting services	\$34,300 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 1)	\$34,300 (USD1,000 thousand)	\$-	\$-	\$34,300 (USD1,000 thousand)	100.00%	\$6,050	\$6,050	\$48,516	\$-
Novatek (Shanghai) Co., Ltd.	Multimedia VLSI software amendment, testing and related consulting services	32,485 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 2)	32,485 (USD1,000 thousand)	-	-	32,485 (USD1,000 thousand)	100.00%	3,168	3,168	58,968	-
Novatek (Xian) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	88,410 (USD3,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 3)	88,410 (USD3,000 thousand)	-	-	88,410 (USD3,000 thousand)	100.00%	2,978	2,978	58,223	-
Novatek (Shenzhen) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	938,280 (USD30,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 4)	938,280 (USD30,000 thousand)	-	-	938,280 (USD30,000 thousand)	100.00%	4,194	4,194	570,772	-

Accumulated Investment in Mainland China as of December 31, 2020	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,093,475 (Note 6) (USD35,000 thousand)	\$1,093,475 (Note 6) (USD35,000 thousand)	\$23,965,922

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Note 1: The Company indirectly invested in Novatek (Suzhou) Co., Ltd., via investment in Novatek International (SAMOA) Ltd., an equity investee, via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 2: The Company indirectly invested in Novatek (Shanghai) Co., Ltd. via investment in Cheertek International Inc., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 3: The Company indirectly invested in Novatek (Xian) Co., Ltd. via investment in Novatek International (SAMOA) Ltd., an equity investee, via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 4: The Company indirectly invested in Novatek (Shenzhen) Co., Ltd. via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 5: The share of profits/losses from equity investments under the equity method in 2020 were recognized based on its financial statements audited by Taiwan parent company's independent auditor.

Note 6: This was calculated by using the exchange rate on remittance day.

B. Significant direct or indirect transactions with the investees in Mainland China:

- (a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: None.
- (b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: None.
- (c) The amount of property transactions and the amount of the resultant gains or losses: None.
- (d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None.
- (e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: None.
- (f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services: Please refer to Note 13(1) J.

(4) Information of major shareholders

There are no shareholders holding more than 5% (included) of the Company's shares for the year ended December 31, 2020.

F. The effect of insolvency of the company and affiliates on the financial position of the company for the preceding year to the day of the annual report printed, if any:
None.

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

A. Analysis of Financial Status

Unit: NT\$K

Account Title \ Year	December 31, 2020	December 31, 2019	Amount of Increase/Decrease	Percentage of Change (%)
Current assets	\$44,950,572	\$38,002,356	\$6,948,216	18.28
Property, plant and equipment	6,577,261	3,838,703	2,738,558	71.34
Intangible assets	2,545,172	2,695,345	(150,173)	(5.57)
Other assets	4,027,684	2,338,830	1,688,854	72.21
Total assets	58,100,689	46,875,234	11,225,455	23.95
Current liabilities	17,462,656	12,814,489	4,648,167	36.27
Non-current liabilities	694,830	982,425	(287,595)	(29.27)
Total liabilities	18,157,486	13,796,914	4,360,572	31.61
Shareholders' equity attributable to shareholders of parent	39,943,203	33,078,320	6,864,883	20.75
Share capital	6,085,115	6,085,115	-	-
Additional paid-in capital	2,375,054	3,287,822	(912,768)	(27.76)
Retained earnings	30,284,139	23,954,012	6,330,127	26.43
Other equity	1,198,895	(248,629)	1,447,524	582.20
Non-controlling interests	-	-	-	-
Total shareholders' equity	39,943,203	33,078,320	6,864,883	20.75

The cause and impact of changes between two terms for a ratio over 20% and for an amount over NT\$10 million:

1. Increase in property, plant and equipment: due to the increase of property, plant and equipment for business operation, and the purchase of Tai Yuen office building.
2. Increase in other assets: due to the increase in fair value of financial assets measured at fair value through other comprehensive income.
3. Increase in total assets: due to the increase of cash and cash equivalents, inventories, and property, plant and equipment.
4. Increase in current liabilities: due to the increase of purchases and payables, resulting from the increase of revenue.
5. Decrease in non-current liabilities: due to the decrease of deposits received.
6. Increase in total liabilities: due to the increase of payables.
7. Increase in shareholders' equity attributable to shareholders of parent: due to the increase of retained earnings.
8. Decrease in additional paid-in capital: due to the cash dividend distributed from the additional paid-in capital.
9. Increase in retained earnings: due to the increase of net income.
10. Increase in other equity: due to the increase in fair value of financial assets measured at fair value through other comprehensive income.
11. Increase in total shareholders' equity: due to the increase of retained earnings.

B. Analysis of Financial Performance

Unit: NT\$K

Account Title \ Year	2020	2019	Amount of Increase/Decrease	Percentage of Change (%)
Net sales	\$79,955,520	\$64,372,306	\$15,583,214	24.21
Operating cost	(51,997,813)	(43,757,919)	8,239,894	18.83
Gross profit	27,957,707	20,614,387	7,343,320	35.62
Operating expenses	(13,180,109)	(10,756,966)	2,423,143	22.53
Operating income	14,777,598	9,857,421	4,920,177	49.91
Non-operating income and expenses	(228,624)	(42,356)	(186,268)	(439.77)
Income before income tax	14,548,974	9,815,065	4,733,909	48.23
Income tax expense	(2,731,735)	(1,887,656)	844,079	44.72
Net income	11,817,239	7,927,409	3,889,830	49.07
Other comprehensive income	1,437,015	188,303	1,248,712	663.14
Comprehensive income	13,254,254	8,115,712	5,138,542	63.32
Net income attributable to shareholders of the parent	11,817,239	7,927,409	3,889,830	49.07
Net income attributable to non-controlling interests	-	-	-	-
Comprehensive income attributable to shareholders of parent	13,254,254	8,115,712	5,138,542	63.32
Comprehensive income attributable to non-controlling interests	-	-	-	-
Analysis of deviation greater than 20% and for an amount over NT\$10 million:				
1. Increase in net sales: due to the increase of revenue, benefiting from market demand and expansion.				
2. Increase in gross profit: due to the increase of revenue, and the growth of gross margin benefiting from new products and the improvement of product portfolio.				
3. Increase in operating expenses: due to the increase of research and development expenses.				
4. Increase in operating income: due to the increase of gross profit.				
5. Increase in non-operating income and expenses: due to the increase of exchange losses.				
6. Increase in income before income tax: due to the increase of operating income.				
7. Increase in income tax expense: due to the increase of income before income tax.				
8. Increase in net income: due to the increase of income before income tax.				
9. Increase in other comprehensive income: due to the increase in fair value of financial assets measured at fair value through other comprehensive income.				
10. Increase in comprehensive income: due to the increase of net income.				

C. Cash Flow Analysis

1. Analysis of cash flow deviation for the current period:

Unit: NT\$K

Beginning balance (1)	Net cash provided by operating activities (2)	Net cash outflow from investing and financing activities (3)	Cash balance (deficit) (1) + (2) - (3)	Remedy for cash flow shortfall	
				Investment plan	Financing plan
17,913,796	15,379,592	(10,418,081)	22,875,307	-	-
Analysis of cash flow: 1. Net cash provided by the operating activities was mainly from 2020 net income before income tax. 2. Net cash used in investing and financing activities was mainly for the payout of cash dividends and the purchase of office building.					

2. Remedy for cash shortfall: Not applicable

3. Analysis of cash flow project for the next period:

Unit: NT\$K

Beginning balance (1)	Estimated net cash inflow from operating activities (2)	Estimated net cash outflow from investing and financing activities (3)	Cash balance (deficit) (1) + (2) - (3)	Remedy for cash flow shortfall	
				Investment plan	Financing plan
22,875,307	11,653,735	(10,099,461)	24,429,581	-	-
1. Cash flow analysis this year: (1) Operating activities: Net cash flow provided by profit of operating activities is expected. (2) Estimated net cash outflow: Net cash used in the payout of cash dividends, capital expenditures, and the adequate addition of short-term loans is expected. 2. Remedial measures for the expected insufficient cash and liquidity analysis: Not applicable					

D. Financial Impact of Major Capital Expenditure

1. Purpose of major capital expenditure and source of funds:

Plan	Actual or Planned Source of Capital	Estimated Capital Requirement	Status of Actual or Projected Use of Capital
			2020
Financial assets	Cash flow generated from operation	\$15,095	\$15,095
Property, plant and equipment	Cash flow generated from operation	3,525,992	3,525,992
Intangible assets	Cash flow generated from operation	111,126	111,126
Total		\$3,652,213	\$3,652,213

2. Expected results and benefits from expansion:

Financial assets are expected to generate benefits by investing in investment companies which are mainly engaged in investing high tech and advanced manufacturing industries to help their operational improvement and resources incorporation. The expansion of property, plant and equipment and intangible assets helps the Group's R&D process become more efficient and thus shortening the new product development cycle.

E. Direct Investment Policy, Main Causes for Profit or Loss, Improvement Plan and Investment Plan for the Upcoming Year:

The Group's investments are all based in long-term strategy. Unrealized gains from equity instruments investments measured at fair value through other comprehensive in 2020 were NT\$1,443,250 thousands due to the increase in fair value of some investments. The Group will keep its long-term strategic investment policy and evaluate investment plans prudentially.

F. Risk Management

1. Impacts due to foreign exchange volatility, inflation and interest rate fluctuation and remedy:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans at variable interest rates which are under short term contract, thus the cash flow risk of fluctuate interest is considerably low. The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, on borrowings with variable interest rates. While the balance of short-term loans is zero at the reporting date, there is no effect to the profit for the year ended December 31, 2020. The Group will keep on its attention to the global economics and environment to minimize the possible adverse impact on the Group.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities and the Group's net investments in foreign subsidiaries. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analysis is as follows: when NTD strengthens/weakens against USD by 5%, the profit for the year ended December 31, 2020 would increase/decrease by NT\$382,353 thousand. Accordingly dramatic currency exchange fluctuation would cause adverse effect on profit.

Financial Div. has been continuing to pay close attentions to manage foreign currency positions, settling foreign exchange transactions at the best moment while Sales Div. or Purchase Div would adjust this types of currency and maneuver the concluded fx rate of contracts at the right time.

2. Existing internal policies and procedures with respect to high-risk/high-leveraged investment; lending, endorsements and guarantees for other parties; and financial derivatives transactions, and measures to be taken in response to the potential risks:

The Group has not engaged in high-risk or high-leveraged financial investments during 2020 and up to date of this report.

3. Future development plan and expected R&D expenditure:

Future R&D Projects:

- (1) Mini LED driver ICs
- (2) 8K TV controller
- (3) Automobile TDDI
- (4) IVS Intelligent video single chips
- (5) LCD panel Under-Display Fingerprint
- (6) LCD Under-Display Fingerprint/Touch integrated Driver ICs (FTDI)
- (7) Mobile AMOLED TDDI
- (8) Wearable AMOLED driver ICs
- (9) AMOLED Under-Display Fingerprint

As of the date of this report, some of the new products are at the stages of verification and customers' acceptance. Should no major changes, the R&D expenditure will accounted for 13% of the consolidated sales revenue in 2021.

4. Political and regulatory environment:

The Group keeps paying high attention to any change in political and regulatory environment and deliberates the proper solutions in time.

5. Potential risks associated with industry/technology evolution:

High-tech industries face constant fast changes, with the global semiconductor and panel manufacturing industries experiencing a weeding out of the weak in recent years, with more consolidations and mergers. The Group will continue its efforts on cost reductions and a product mix of high value-added function enhancement. The Group's current financial position is well functioned, and the future technology development can be fully fulfilled.

6. Potential impact and risks associated with contingent events that may have a significant adverse impact on the company's business and image:

The Group is committed to conducting business activities in accordance with the laws, regulations and decent principles to maximize the benefits for its customers, shareholders and the community. The Group will periodically disclose and release the relevant financial information and business news at the shareholders' meeting and investors' conference. A standing task force is established to be responsible for risk and crisis management.

7. Potential impact and risks associated with mergers and acquisitions:

As of the date of this report, the Group did not consummate any merger and acquisition activities. The Group will carefully evaluate the benefits and possible impacts of merger or acquisition.

8. Potential impact and risks associated with capacity expansion:

The Group is a pure play of chip design with no need of production-related facilities. The Group will conduct the office expansion for the increase of R&D personnel and activities. The expansion plan will be carefully evaluated and executed according to the approved budget plan.

9. Potential impacts and risks relating to concentration of sales and/or procurement sources and related measures to cope with such impacts and risks:

Wafer fabrication is the Group's major material supply. UMC, the world's leading foundry service provider, is the Group's major material supplier. The Group has continually looked for ways to reserve a reliable supply of services and materials from multiple resources.

The Group's major customers are the world's top-tier panel makers and related agencies. The Group will continue to expand its market presence and to broaden its customer based.

10. Potential impact and risks associated with sales of significant numbers of shares by Novatek's directors, supervisors and major shareholders who own 10% or more of Novatek's total outstanding shares:

One or more of the Group's existing shareholders may, from time to time, dispose of significant numbers of common shares according to their financing or funding purposes. This may cause an impact on the share price, as well as the Group's business. The Group will ensure that the dispose of shares will be in accordance with the regulations and laws.

11. Potential impact and risks associated with replacement of management:

In 2020, and as of the date of the report, there was no replacement of management. The management is one of the core competences of the Group's future growth and long-term development. The Board of committee will pay its special attention to any replacement of management to ensure of the best quality of the management for the Group.

12. Litigation and non-litigated incidents:

FOCALTECH ELECTRONICS, LTD. ("FOCALTECH") filed two applications for preliminary injunctions with the Intellectual Property Court against the Company alleging infringement of Patent No. I529580B "TOUCH DISPLAY DEVICE, DRIVING CIRCUIT AND DRIVING METHOD" on August 29, 2018 and September 20, 2018. The Company received Intellectual Property Court 108-Min-Zhan-Kang-Zi-No.2 Civil Ruling in April, 2019. Intellectual Property Court has two applications for preliminary injunctions filed by FOCALTECH. FOCALTECH filed a complaint in the Intellectual Property Court on September 17, 2018 alleging that the Company's chips infringe the I529580B patent. The Company received Intellectual Property Court 107-Min- Zhuan-Su-Zi-No.95 Civil Judgment on December 23, 2019. The first instance of the complaint for patent infringement has been OVERRULED by the Intellectual Property Court. The Litigation Proceedings are still

processing, and the operations and financial of the Company would not be materially affected by this case.

Taiwan Taichung District Prosecutors Office filed a prosecution against UMC on August 31, 2017 for suspicion of UMC employee's infringement of the trade secret of Micron Technology Inc. (Micron Company) in accordance with the Trade Secrets Act, for which UMC already directed its attorney to do the plea. Taiwan Taichung District Court rendered a judgment of guilt on June 12, 2020 on the lawsuit brought by Micron Company against UMC and others for stealing the trade secret. This judgment has no significant impact on UMC in terms of its finances and business. UMC has filed an appeal in accordance with the law. In addition, Micron Company filed a civil lawsuit against UMC on December 5, 2017 with United States District Court of the Northern District of California for UMC's infringement of its trade secret, claimed that UMC should compensate Micron Company for its actual damage, three times of the damage amount and relevant expenses, and requested the Court to issue the preliminary and permanent restraining order to prohibit UMC from using its trade secret, for which UMC also already directed its attorney to do the plea. Currently the court has suspended the civil lawsuit, yet the criminal lawsuit is still in progress.

UMC filed three cases of patent infringement litigation on January 12, 2018 against Micron Semiconductor (Xi'an) Co., Ltd. and Micro Semiconductor (Shanghai) Co., Ltd. with Fuzhou Intermediate People's Court in mainland China, and requested the Court to order the defendants to stop manufacturing, processing, importing, selling or committing to selling the products accused of infringement, and destroy all the inventory and related modules as well as tools. Intermediate People's Court of Fuzhou, China issued initial ban on the two aforementioned defendants on July 3, 2018. The Court ruled that the two defendant companies immediately stop production, sales and import of a number of products that infringe on the patent rights of UMC. The lawsuit filed by UMC is still being tried by the Court. The court has approved the withdrawal of one of the lawsuits by UMC, yet the other two lawsuits are still being tried in the court.

The US Department of Justice unveiled the indictment against UMC, a current employee and two former employees of UMC, and the Fujian Jinhua Integrated Circuit Co (JHICC) in China on November 1, 2018. The suit against the aforementioned defendants is conspiracy to steal, transmit and possession of Micron's trade secrets for the manufacture of DRAM. On the same day, the US government also filed a civil lawsuit, requesting the court to prohibit the defendant from transmitting stolen Micron trade secrets, and prohibiting UMC and JHICC from exporting products made with Micron trade secrets to the United States. The technical cooperation between UMC and JHICC has been suspended ever since then. With regard to the criminal action, UMC submitted a written pleading with a sentencing proposal on October 22, 2020. The written pleading contained a request for the court to sentence UMC for a less serious

criminal charge and a fine in the amount of US\$60 million. The court finally rendered a judgment on October 29, 2020 affirming the aforementioned criminal charge and fine, and also revoked the relevant civil action brought by the Department of Justice. UMC has recognized the aforementioned fine as other non-operating loss.

On March 14, 2019, Meyer and other investors filed presumptive class action against UMC and certain senior management in the Federal District Court of the Southern District of New York for violating 1934 U.S. Securities Exchange Act and Rule 10b-5. The court appointed the lead plaintiff and approved the lead plaintiff's litigation agent on May 23, 2019. UMC received the plaintiff's supplementary indictment on September 27, 2019, and now UMC have appointed attorneys to prepare relevant procedures. At present, both parties have completed the mediation procedure and have been in the process of waiting for the judge to try this case. UMC expected that this lawsuit will not have any major impact on the finance of UMC.

13. Other important risks:

Information security can be divided into three levels: external hacker attack, confidential information protection, and peer-to-peer security awareness. Based on the concept of defense in depth, Novatek has constructed external-to-internal security measures to prevent external attacks such as malicious hackers, computer viruses and ransomware attacks from affecting the stable operation of the Company's operating system. At the same time, to protect the Company's intellectual property, trade secrets and internal information security, reasonable protective measures are established according to confidentiality level. In addition, through education, training and regular announcements, employee's concept about DNA for information security is established. Furthermore, Novatek convenes an Information Security Committee meeting each year to formulate information security recommendations. The appropriateness and effectiveness of information security operations are also evaluated regularly, and special projects are developed for ongoing reinforcement of protective measures to reduce security risks.

G. Other Necessary Supplements: None.

VIII. Special Disclosures

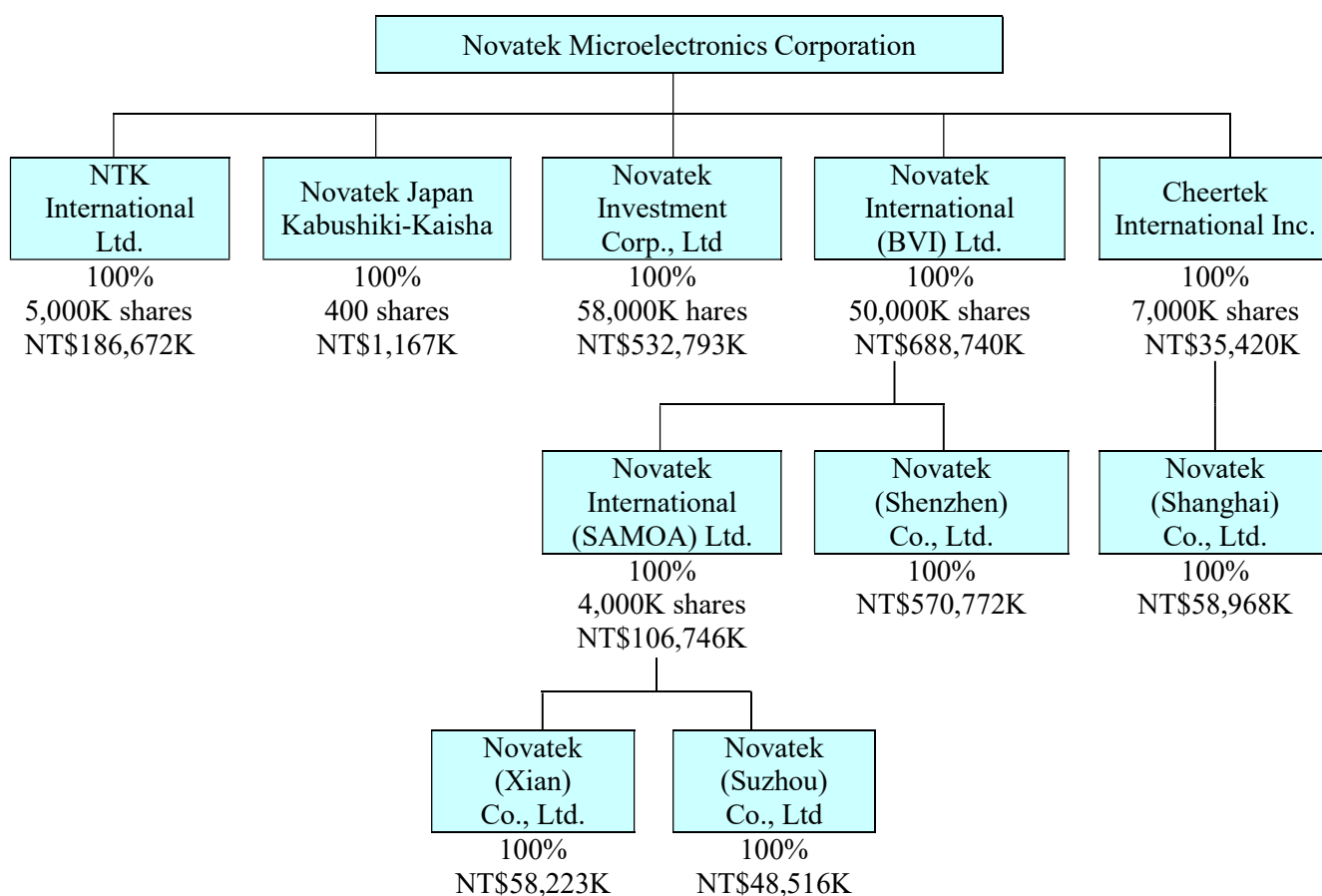
A. Affiliate Information

1. Merger operation report of affiliated companies:

a. Status of affiliated companies

(1) Affiliated companies:

Dec.31, 2020



(2) Background information on affiliated companies:

Dec. 31, 2020

Company	Date of incorporation	Location	Paid-in capital	Business activities
NTK International Limited	July 1997	Kwun Tong, Hong Kong	HK\$5,000,003	Manufacturing and marketing of integrated circuits and semiconductor devices
Novatek Japan Kabushiki-Kaisha	June 2001	Tokyo, Japan	JPY\$20,000,000	Manufacturing and marketing of integrated circuits and semiconductor devices
Novatek Investment Corp., Ltd	Nov. 2001	Hsinchu, Taiwan	NT\$580,000,000	Investment activities
Novatek International (BVI) Ltd.	July 2002	British Virgin Islands	US\$50,000,000	Investment activities
Novatek (Shenzhen) Co., Ltd	Feb. 2015	Shenzhen, China	US\$30,000,000	Design, testing and consulting of semiconductor application software
Novatek International (SAMOA) Ltd.	Aug. 2002	Samoa	US\$4,000,000	Investment activities
Novatek (Suzhou) Co., Ltd	April 2002	Suzhou, China	US\$1,000,000	Sales and marketing of electronics, international trading and consulting service
Novatek (Xian) Co., Ltd	Aug. 2011	Xian, China	US\$3,000,000	Design, testing and consulting of semiconductor application software
Cheertek International Inc.	Feb. 2002	Samoa	US\$7,000,000	Investment activities
Novatek (Shanghai) Co., Ltd.	July 2002	Shanghai, China	US\$1,000,000	Amending, testing and consulting of semiconductor application software

(3) Common shareholders of Novatek and its subsidiaries or affiliates with actual or deemed control: None.

(4) Business scope of Novatek's affiliated companies

Name	Business activities	Business relations
NTK International Limited	Manufacturing and marketing of integrated circuits and semiconductor devices	Service and sales center in Hong Kong
Novatek Japan Kabushiki-Kaisha	Manufacturing and marketing of integrated circuits and semiconductor service	Service and sales center in Japan
Novatek Investment Corp., Ltd	Investment activities	Not applicable
Novatek International (BVI) Ltd.	Investment activities	Not applicable
Novatek (Shenzhen) Co., Ltd	Design, testing and consulting of semiconductor application software	Design, testing and consulting of semiconductor application software
Novatek International (SAMOA) Ltd.	Investment activities	Not applicable
Novatek (Suzhou) Co., Ltd	Sales and marketing of electronics, international trading and service	Sales and marketing of electronics, international trading and service
Novatek (Xian) Co., Ltd	Design, testing and consulting of semiconductor application software	Design, testing and consulting of semiconductor application software
Cheertek International Inc.	Investment activities	Not applicable
Novatek (Shanghai) Co., Ltd.	Testing and consulting of semiconductor application software	Testing and consulting of semiconductor application software

(5) Directors, Supervisors and officers of Novatek's affiliated companies

Dec. 31, 2020

Company	Title	Name of representative		Shareholding	
				Shares	%
NTK International Limited	Chairman Director Director	Tai-Shung, Ho Steve Wang Jason Huang	Novatek representative Novatek representative Novatek representative	5,000K	100.00
Novatek Japan Kabushiki-Kaisha	Chairman Director Director Supervisor	Tai-Shung, Ho Steve Wang Allen Wu Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	400	100.00
Novatek Investment Corp., Ltd	Chairman Director Director Supervisor	Tommy Chen J. D. Lai Edward Tsai Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	58,000K	100.00
Novatek International (BVI) Ltd.	Chairman	Tai-Shung, Ho	Novatek representative	50,000K	100.00
Novatek (Shenzhen) Co., Ltd.	Chairman Director Director Supervisor	Steve Wang Tommy Chen Jason Huang Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	-	100.00
Novatek International (SAMOA) Ltd.	Chairman	Tai-Shung, Ho	Novatek representative	4,000K	100.00
Novatek (Suzhou) Co., Ltd	Chairman Director Director Supervisor	Steve Wang Robin Lin Jordan Liu Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	-	100.00
Novatek (Xian) Co., Ltd	Chairman Director Director Supervisor	Steve Wang J H Chang C S Tang Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	-	100.00
Cheertek International Inc.	Chairman	Tai-Shung, Ho	Novatek representative	7,000K	100.00
Novatek (Shanghai) Co., Ltd.	Chairman Director Director Supervisor	Steve Wang Jason Huang J H Chang Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	-	100.00

b. Operation highlights of Novatek's affiliated companies

Dec. 31, 2020; Unit: NT\$K, except for earnings per share

Company	Paid-in capital	Total assets	Total liabilities	Net worth	Net sales	Operating income	Net income (after tax)	EPS (after tax)
NTK International Limited	20,949	1,017,061	830,389	186,672	9,411,359	26,308	59,605	11.92
Novatek Japan Kabushiki-Kaisha	5,430	3,392	2,225	1,167	28,768	276	(217)	(542.83)
Novatek Investment Corp., Ltd.	580,000	532,817	24	532,793	1,391	1,297	1,297	0.02
Novatek International (BVI) Ltd.	1,517,830	688,740	-	688,740	-	(510,076)	(499,611)	(9.99)
Novatek (Shenzhen) Co., Ltd	938,280	590,139	19,367	570,772	208,526	3,661	4,194	-
Novatek International (SAMOA) Ltd.	121,600	106,746	-	106,746	-	-	9,028	2.26
Novatek (Suzhou) Co., Ltd	34,300	65,575	17,059	48,516	113,799	3,281	6,050	-
Novatek (Xian) Co., Ltd	88,410	126,064	67,841	58,223	186,897	(7,942)	2,978	-
Cheertek International Inc.	209,150	66,783	31,363	35,420	-	(171,669)	(168,527)	(24.08)
Novatek (Shanghai) Co., Ltd.	32,485	89,973	31,005	58,968	161,316	(5,673)	3,168	-

2. Consolidated Financial Statements of affiliated Enterprises:

Please refer to D. Financial Statements in VI. Financial Highlights and the following representation letter.

3. Affiliated Reports:

Not Applicable.

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2020 and for the year then ended prepared under the International Financial Report Standards No.10 (referred to as “Consolidated Financial Statements”) are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the consolidated financial statements have fully covered the required information in such combined financial statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours

Novatek Microelectronics Corp.

Chairman: Tai-Shung, Ho

February 25, 2021

B. Issuance of private placement securities: None.

C. Acquisition or Disposal of Novatek shares by Subsidiaries: None.

D. Other Necessary Supplements: None.

E. Events regulated in Article 36-3-2 of the Securities and Exchange Laws: None.