



超眾科技股份有限公司
CHAUN-CHOUNG TECHNOLOGY CORP.

Letter to Shareholders

Dear Shareholders, Ladies and Gentlemen:

We, on behalf of the Board and employees of Chaun-Choung Technology Corp., would like to thank all our shareholders for your support and care. We hereby present the Company's 2019 business performance and 2020 operational plans to our beloved shareholders.

I. The 2019 Business Report

(I) The implementation results of the 2019 Business Plan

The Company generated consolidated net revenues totaling NT\$8,586,172 thousands in 2019, up 12% from the NT\$7,662,175 thousands in 2018. Pre-tax profit was concluded at NT\$967,857 thousands, up 4% from the NT\$931,048 thousands in 2018; net income amounted to NT\$701,534 thousands, representing an EPS of NT\$8.12 that were 18% higher than the previous year. The function of High-end PC, smart phones and electronic products becomes more sophisticated and high performance, and the higher demand for heat cooling, the products with high power cooling drives the sustained growth of the Company.

The overview of heat cooling industry nowadays, as the related technology of Cloud, Artificial Intelligence (AI) and 5G has developed maturely gradually, the application of heat cooling products focused on personal devices related to PC industry has expanded to the fields of smart phones, Cloud Data Centers, IoT, automobiles, communications, information computing facilities as well as smart home appliances. The overall demand for heat cooling products and the market size have continued to grow quickly. In order to meet the diversified needs of the market, CCI provides a wider array of cooling related products. The Company will continue to deepen the relationship of the existing customers and actively develop the heat cooling solutions in the fields of Handheld devices, Gaming consoles, high power air cooling systems and liquid cooling systems to meet the needs of the market. To invest the product development driven by related applications such as AI, IoT and 5G is the goal of the Company, in addition, comprehensively enhancing the connection with the key global regions / customers to strengthen the services for existing customers and develop new customers.

Besides well-known of cooling devices for the smart phones, laptops and servers have been getting lighter, slimmer and higher efficiency in

performance. Chaun-Choung has successfully developed a number of cooling solutions for electronic products which are also in mass production in recent years, such as Gaming NB with overclocking thermal modules, Action Cameras with slim and light heat sink components, high-density & High Performance Computing (HPC) workstation-grade server thermal modules and Advanced Driver Assistance Systems (ADAS) with liquid-cooling solutions. Further, the technology of the products with copper vapor chamber developed by Chaun-Choung, no matter is ultra-slim vapor chamber or high-performance vapor chamber, the technology is maturity and has been recognized by major cell phone and network communication customers around the world with successful launch into the market and in mass production. Recently, based on this successful experience, Chaun-Choung is endeavouring towards the research and development of non-copper alloy technology, and apply this technology to more stringent requirement cooling solutions, such as vehicle-mounted, electrical and electronic products, which require higher performance in cooling, stronger strength, lighter in weight. The usage of new materials will be based on the successfully developed copper production process, which will further extend to new equipment and new production process. Refine key welding and vacuum technology to overcome the physical bottleneck of design and manufacturing for different materials. It is expected to achieve ultra-slim thickness of less than 0.3 mm and high performance with a pressure resistance of more than 300 pounds as a unique cooling solution for particular demands.

It is the second year after joining of the Nidec team, after the cooperation of business and technology development the past year, the operational efficiency of each plant has been greatly improved. Through close cooperation with each other, the synergy has already yielded. Furthermore, the construction of the plant in Vietnam is expected to be completed by the end of this year. This will not only upgrade the overall production capacity of the whole group but also diversify the risk of concentration at only one production site. This will be favorable for the adjustment of the production line of the group to satisfy the needs and expectations of different customers. In terms of product strategy, the Company will continue exploring slimmer, smaller, more structurally robust and more heat cooling-efficient solutions in response to the trend of more diversified applications. The Company will concentrate on the applications such as Artificial Intelligence (AI), Internet of Things (IoT), Cloud, 5G, High Performance Computing (HPC), smart home appliances and automobiles, with using air cooling and liquid cooling solutions, to satisfy the demands of the market and expand the operational scale. As for the uncertainties are trade wars between major economies, risks of global security change, fluctuations in raw material prices, increased operation costs such as labor

and product price competition. The Company will accelerate the optimization of production process to improve production capacity and productivity, and continue the innovation in technology, products and applications, with the suitable rearrangement of the production sites for assurance of core competence and synergy to surpass industry peers.

(II) Budget execution: according to the “Regulations Governing the Publication of Financial Forecasts of Public Companies”, the Company is not required to disclose information regarding budget execution and analysis in 2019, as the Company did not release the information of financial forecasts in 2019.

(III) Revenue, Expenditure and profitability analysis

Currency unit: NTD thousands

Item		Year	2018	2019
Financial Income and Expenditure	Operating Revenue		7,662,175	8,586,172
	Gross Profit from Operation		1,551,889	1,858,195
	Net Profit		595,610	701,534
Profitability	Return on Assets (%)		8.91	9.91
	Return on Equity (%)		16.01	17.76
	Pre-tax Profit as a percentage of Paid-up Capital (%)		107.83	112.09
	Net profit rate (%)		7.77	8.17
	Basic Earnings per Share (NT\$)		6.90	8.12

(IV) Research and Development

1. Research and Development Expenses in the last two years

Currency unit: NTD thousands

Item	Year	2018	2019
R&D Expenses		290,193	343,725
As a Percentage of Current Year Revenue (%)		3.79	4.00

2. Research and Development Outcomes

- (1) The development of cooling solution for the ultra-slim vapor chamber for 5G smart phones was completed.
- (2) The development of cooling solution for Intel Cometlake Platform was completed.
- (3) The development of cooling solution for Server Whitley Platform was completed.

II. Summary of 2020 Business Plan

(I) Operational Guidelines

1. Integrate internal management systems of the Company and obtain timely information to improve the efficiency and quality of decisions making.
2. Combining the resources of Nidec (Parent Company) to expand global competitiveness as well as vision and enhance policy execution.
3. Continuously intensify the development and management of supply chain to get more effective control of material costs.
4. Proactively establish good relationships with customers, satisfy various needs requesting by customers. Improve the timeliness of customer complaint handling, adopt corrective and preventive action and implement indeed.
5. Focus on market information gathering, including industry trends, financial information for decision making.
6. Adopt automatic production equipment accelerately, renew instruments timely, make ongoing improvements for production process to enhance productivity.
7. Strengthen product innovation and R&D plans; collaborate with research institutions moderately to secure the sources of new and high-tech technologies in the medium and long term of the Company.
8. Carry out the optimization of various transformation, strengthen the integration and management of information systems, simplify the operation process, install auxiliary tools to improve efficiency and enhance the output per capita.

(II) Expected Sales Volume and Basis

The Company's main products include heat pipes, vapor chambers, thermal modules, and heat sinks. These products are mainly used in PCs, servers, network communications, and smart phones. According to certain reports of the market, the extensive spread out of the COVID-19 at the beginning of this year triggered the sudden but sizable demand for telecommuting, distance learning, and medical diagnosis, which in turn resulted in the short supply of PCs worldwide. However, the production base in China cannot resume as scheduled and accompany with the delay in logistic supply due to the isolationism policy adopted by the countries for the prevention of the epidemic. The result was the decline of global PCs' shipment by 8% in the first quarter of 2020 as compared with the same period of the previous year. But it can be expected that most countries will further expand their digital services under the influence of the epidemic and pull up the demand for broadband networks, which may be the key for

accelerating the installation of hardware for 5G.

In addition to maintaining the stable market shares of PC and server cooling components, the Company will spare no effort in developing the application of vapor chambers in 2020. The shipment volume of main products will continue to growth overall and the expected consolidated sales volume is as follows,

Units: thousand sets/thousand pieces

Main Products	Annual Expected Sales Volume	As of March 31, 2020	
		Volume Sold	Percentage of Accomplishment (%)
Thermal module	70,715	9,627	13.61
Heat Sink	38,340	5,256	13.71
Others	26,948	6,615	24.55
Total	136,003	21,498	15.81

(III) Important Production and Sales Policies

Production Policies: The industrial characteristics of heat cooling products are few standardization, frequent design changes and urgent orders. Therefore, the Company enforces the strict inventory management, reducing inventory and increasing inventory turnover. In addition, the Company also invests extensively in automatic production equipment as a mean to reduce labor requirements, and actively explores ways to improve production quality, simplify production process, design common materials for cost reduction in order to offer more competitive price of products.

Sales Policies: In addition to expanding market shares in local and foreign markets, the Company will also gradually increase investment in vapor chamber production capacity depending on the market supply and demand situation. In addition, the Company will strengthenly develop distribution channels and establish agency sales channels to further expand the international market exposure.

III. Future Development Strategies

- (I) Set short/medium/long term goals and visions.
- (II) Take actions toward accomplishing the prescribed goals and visions, and track performance on a regular basis for strategies flexible adjustments.
- (III) Close cooperation with Nidec to broaden the scope of product services and industry field developing, which will help obtain comparative advantages of each product lines among the industry peers.

- (IV) Enhance the quality and energy of R&D, and share the achievements and revenue growth performance with customers.
- (V) Speed up production capacity expansion to satisfy future market demand.
- (VI) Actively upgrade the automated production process to improve efficiency and get effective cost control.
- (VII) Make continuous improvements on product quality and achieve the goal of zero defects.
- (VIII) Continue to strengthen the industry's environmental protection policies, energy conservation, carbon emission, create a friendly environment as well as employment terms for compliance with RBA (EICC) and fulfillment of social responsibilities, to realize our vision of a low-carbon/carbon-free industry.

IV. Impacts of the Competitive Environment, Regulatory Environment, and the Overall Business Environment

The Company has been susceptible to impacts of external competition, regulations, and macroeconomic environment since it was first founded. Faced with market competition, new laws issued by the securities authority, foreign environmental protection regulations, and the rapid change of global operating environment, the Company's operating performance has been indeed affected. In response to the above environmental changes, the Company will take actions to ensure the financial reports are prepared according to new securities laws and request all products produced by suppliers and the Company are compliant with foreign environmental protection regulations. Besides, the Company will endeavor to strengthen the integration of supply chain, enhance the percentage of self-manufacturing components, improve production processes, expand production capacity to make cost reduction, and timely grasp customers' order requirements to enable proper planning of raw material purchases, and thereby improve overall competitiveness of the Company.

We give you

Our best regards for the future ahead

Chairman: Junichi Nagai

General Manager: Ta-Chi Kuo

Head of Accounting: Ling-Chuan Yi