

M31 Technology Corporation and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2021 and 2020 and
Independent Auditors' Review Report**

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Independent Auditors' Review Report

The Board of Directors and Shareholders
M31 Technology Corporation

Introductions

We have reviewed the accompanying consolidated balance sheets of M31 Technology Corporation and its subsidiaries (collectively referred to as the "Group") as of March 31, 2021 and 2020 and the consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Statement of Auditing Standards No.65 "Review of Financial Information Performed by the Independent Auditor of the Entity." A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects the consolidated financial position of the Group as of March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the three-month periods then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the review resulting in this independent auditors' review report are Yu Feng Huang and Mei Chen Tsai.

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 4, 2021

Notice to Readers

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

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2021, DECEMBER 31, 2020, AND MARCH 31, 2020

(In Thousands of New Taiwan Dollars)

| ASSETS | MARCH 31, 2021 (Reviewed) | | DECEMBER 31, 2020 (Audited) | | MARCH 31, 2020 (Reviewed) | |
|--|------------------------------|--------------|--------------------------------|--------------|------------------------------|--------------|
| | Amount | % | Amount | % | Amount | % |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | \$ 455,852 | 22 | \$ 527,760 | 30 | \$ 598,460 | 36 |
| Financial assets at fair value through profit or loss – current (Note 7) | 609,944 | 29 | 444,616 | 25 | 485,442 | 29 |
| Financial assets at amortized cost – current (Note 9) | 85,605 | 4 | 227,840 | 13 | 74,450 | 5 |
| Accounts receivable (Notes 10 and 21) | 153,192 | 7 | 254,612 | 15 | 222,757 | 13 |
| Other receivables | 7,183 | - | 95 | - | - | - |
| Current tax assets (Note 4) | 47,514 | 2 | 41,567 | 2 | 29,516 | 2 |
| Prepayments (Note 15) | 55,083 | 3 | 15,816 | 1 | 29,860 | 2 |
| Other current assets (Note 15) | 8,479 | 1 | 8,475 | 1 | 1,871 | - |
| Total current assets | <u>1,422,852</u> | <u>68</u> | <u>1,520,781</u> | <u>87</u> | <u>1,442,356</u> | <u>87</u> |
| NON-CURRENT ASSETS | | | | | | |
| Financial assets at fair value through other comprehensive income- non-current (Note 8) | 20,522 | 1 | 28,000 | 2 | 9,350 | 1 |
| Property, plant and equipment (Note 12) | 595,086 | 29 | 175,035 | 10 | 171,470 | 10 |
| Right-of-use Assets (Note 13) | 2,003 | - | 4,186 | - | 10,940 | 1 |
| Intangible assets (Note 14) | 7,333 | 1 | 7,775 | - | 1,883 | - |
| Deferred tax assets (Note 4) | 5,253 | - | 7,867 | - | 6,640 | 1 |
| Other non-current assets (Note 15) | 26,135 | 1 | 13,118 | 1 | 6,070 | - |
| Total non-current assets | <u>656,332</u> | <u>32</u> | <u>235,981</u> | <u>13</u> | <u>206,353</u> | <u>13</u> |
| TOTAL | <u>\$ 2,079,184</u> | <u>100</u> | <u>\$ 1,756,762</u> | <u>100</u> | <u>\$ 1,648,709</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Contract liabilities – current (Note 21) | \$ 59,797 | 3 | \$ 90,167 | 5 | \$ 60,536 | 4 |
| Accounts payable (Note 17) | 1,078 | - | 3,085 | - | 1,981 | - |
| Other payables (Note 18) | 66,232 | 3 | 114,637 | 7 | 56,140 | 3 |
| Current tax liabilities (Note 4) | 36,207 | 2 | 28,861 | 2 | 32,262 | 2 |
| Lease liabilities – current (Note 13) | 1,157 | - | 3,074 | - | 8,853 | 1 |
| Long-term loans maturing within one year (Note 16) | 18,498 | 1 | - | - | - | - |
| Other current liabilities (Note 18) | 3,227 | - | 6,809 | - | 2,160 | - |
| Total current liabilities | <u>186,196</u> | <u>9</u> | <u>246,633</u> | <u>14</u> | <u>161,932</u> | <u>10</u> |
| NON-CURRENT LIABILITIES | | | | | | |
| Long-term loans (Note 16) | 281,502 | 14 | - | - | - | - |
| Deferred tax liabilities (Note 4) | - | - | - | - | 81 | - |
| Lease liabilities – non-current (Note 13) | 799 | - | 1,095 | - | 2,072 | - |
| Total non-current liabilities | <u>282,301</u> | <u>14</u> | <u>1,095</u> | <u>-</u> | <u>2,153</u> | <u>-</u> |
| Total liabilities | <u>468,497</u> | <u>23</u> | <u>247,728</u> | <u>14</u> | <u>164,085</u> | <u>10</u> |
| EQUITY (Note 20) | | | | | | |
| Share capital | | | | | | |
| Ordinary shares | <u>313,180</u> | <u>15</u> | <u>313,180</u> | <u>18</u> | <u>313,180</u> | <u>19</u> |
| Capital surplus | <u>634,551</u> | <u>30</u> | <u>634,551</u> | <u>36</u> | <u>634,551</u> | <u>39</u> |
| Retained earnings | | | | | | |
| Legal reserve | 92,583 | 4 | 92,583 | 6 | 61,727 | 4 |
| Unappropriated earnings | <u>599,397</u> | <u>29</u> | <u>493,824</u> | <u>28</u> | <u>488,384</u> | <u>29</u> |
| Total retained earnings | <u>691,980</u> | <u>33</u> | <u>586,407</u> | <u>34</u> | <u>550,111</u> | <u>33</u> |
| Other equity | <u>19,040</u> | <u>1</u> | <u>22,960</u> | <u>1</u> | <u>3,248</u> | <u>-</u> |
| Treasury shares | (<u>48,064</u>) | (<u>2</u>) | (<u>48,064</u>) | (<u>3</u>) | (<u>16,466</u>) | (<u>1</u>) |
| Total equity | <u>1,610,687</u> | <u>77</u> | <u>1,509,034</u> | <u>86</u> | <u>1,484,624</u> | <u>90</u> |
| TOTAL | <u>\$ 2,079,184</u> | <u>100</u> | <u>\$ 1,756,762</u> | <u>100</u> | <u>\$ 1,648,709</u> | <u>100</u> |

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

| | Three Months Ended March 31, 2021 | | Three Months Ended March 31, 2020 | |
|---|--------------------------------------|--------------|--------------------------------------|--------------|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Note 21) | \$ 213,135 | 100 | \$ 196,285 | 100 |
| GROSS PROFIT | <u>213,135</u> | <u>100</u> | <u>196,285</u> | <u>100</u> |
| OPERATING EXPENSES (Notes 14 and 22) | | | | |
| Selling and Marketing expenses | (15,684) | (7) | (15,777) | (8) |
| General and administrative expenses | (21,908) | (10) | (24,078) | (12) |
| Research and development expenses | (105,946) | (50) | (92,827) | (48) |
| Expected credit gain (loss) (Note 10) | (1,212) | (1) | (4,032) | (2) |
| Total operating expenses | <u>(144,750)</u> | <u>(68)</u> | <u>(136,714)</u> | <u>(70)</u> |
| OPERATING INCOME | <u>68,385</u> | <u>32</u> | <u>59,571</u> | <u>30</u> |
| NON-OPERATING INCOME AND EXPENSES (Note 22) | | | | |
| Interest income | 306 | - | 2,350 | 1 |
| Other income | 80 | - | 311 | - |
| Other gains and losses | (2,691) | (1) | 7,546 | 4 |
| Finance costs | (66) | - | (46) | - |
| Total non-operating income and expenses | <u>(2,371)</u> | <u>(1)</u> | <u>10,161</u> | <u>5</u> |
| PROFIT BEFORE INCOME TAX | 66,014 | 31 | 69,732 | 35 |
| INCOME TAX EXPENSE (Notes 4 and 23) | <u>(10,377)</u> | <u>(5)</u> | <u>(10,276)</u> | <u>(5)</u> |
| NET PROFIT FOR THE PERIOD | <u>55,637</u> | <u>26</u> | <u>59,456</u> | <u>30</u> |

(Continued)

| | Three Months Ended | | Three Months Ended | |
|--|---------------------------|-----------|---------------------------|-----------|
| | March 31, 2021 | | March 31, 2020 | |
| | Amount | % | Amount | % |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income (Note 20) | \$ 46,007 | 22 | \$ - | - |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating the financial statements of foreign operations (Note 20) | 11 | - | 81 | - |
| Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4, 20, and 23) | (2) | - | (16) | - |
| | <u>9</u> | <u>-</u> | <u>65</u> | <u>-</u> |
| Other comprehensive income (loss) for the period, net of income tax | <u>46,016</u> | <u>22</u> | <u>65</u> | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u>\$ 101,653</u> | <u>48</u> | <u>\$ 59,521</u> | <u>30</u> |
| EARNINGS PER SHARE (Note 24) | | | | |
| Basic | <u>\$ 1.79</u> | | <u>\$ 1.90</u> | |
| Diluted | <u>\$ 1.79</u> | | <u>\$ 1.90</u> | |

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020**

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | Share Capital | | Capital Surplus | Retained Earnings | | Other Equity | | Amount of Treasury Shares | Total Equity |
|---|-----------------------|------------|-----------------|-------------------|-------------------------|---|---|---------------------------|--------------|
| | Shares (In Thousands) | Amount | | Legal Reserve | Unappropriated Earnings | Exchange Difference On Translating the Financial Statements of Foreign Operations | Unrealized Valuation Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income | | |
| BALANCE AT JANUARY 1, 2020 | 31,318 | \$ 313,180 | \$ 634,551 | \$ 61,727 | \$ 428,928 | (\$ 67) | \$ 3,250 | \$ - | \$ 1,441,569 |
| Net profit for the Three Months Ended March 31, 2020 | - | - | - | - | 59,456 | - | - | - | 59,456 |
| Other comprehensive income (loss) for the Three Months Ended March 31, 2020, net of income tax (Note 20) | - | - | - | - | - | 65 | - | - | 65 |
| Total comprehensive income (loss) for the Three Months Ended March 31, 2020 | - | - | - | - | 59,456 | 65 | - | - | 59,521 |
| Purchase of treasury shares (Note 20) | - | - | - | - | - | - | - | (16,466) | (16,466) |
| BALANCE AT MARCH 31, 2020 | 31,318 | \$ 313,180 | \$ 634,551 | \$ 61,727 | \$ 488,384 | (\$ 2) | \$ 3,250 | (\$ 16,466) | \$ 1,484,624 |
| BALANCE AT JANUARY 1, 2021 | 31,318 | \$ 313,180 | \$ 634,551 | \$ 92,583 | \$ 493,824 | (\$ 604) | \$ 23,564 | (\$ 48,064) | \$ 1,509,034 |
| Net profit for the Three Months Ended March 31, 2021 | - | - | - | - | 55,637 | - | - | - | 55,637 |
| Other comprehensive income (loss) for the Three Months Ended March 31, 2021, net of income tax (Note 20) | - | - | - | - | - | 9 | 46,007 | - | 46,016 |
| Total comprehensive income (loss) for the Three Months Ended March 31, 2021 | - | - | - | - | 55,637 | 9 | 46,007 | - | 101,653 |
| Disposal of investments in equity instruments at fair value through other comprehensive income (Notes 8 and 20) | - | - | - | - | 49,936 | - | (49,936) | - | - |
| BALANCE AT MARCH 31, 2021 | 31,318 | \$ 313,180 | \$ 634,551 | \$ 92,583 | \$ 599,397 | (\$ 595) | \$ 19,635 | (\$ 48,064) | \$ 1,610,687 |

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|--|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | \$ 66,014 | \$ 69,732 |
| Adjustments for: | | |
| Depreciation expenses | 9,461 | 9,672 |
| Amortization expenses | 911 | 706 |
| Expected credit loss | 1,212 | 4,032 |
| Net gain on fair value changes of financial assets at fair value through profit or loss | (328) | (576) |
| Finance costs | 66 | 46 |
| Interest income | (306) | (2,350) |
| Unrealized gain on foreign currency exchange | (6,958) | (10,365) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 101,957 | (45,161) |
| Other receivables | (7,177) | 482 |
| Prepayments | (39,267) | (12,310) |
| Other current assets | (4) | (3) |
| Contract liabilities | (30,370) | 33,005 |
| Accounts payable | (2,048) | (128) |
| Other payables | (41,658) | (33,542) |
| Other current liabilities | (3,582) | (3,454) |
| Cash generated from operations | 47,923 | 9,786 |
| Interest received | 395 | 2,350 |
| Interest paid | (11) | (46) |
| Income tax paid | (6,364) | (1,904) |
| Net cash generated from operating activities | 41,943 | 10,186 |

(Continued)

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|--|--|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Disposal of financial assets at fair value through other comprehensive income | \$ 53,485 | \$ - |
| Disposal of financial assets at amortized cost | 151,200 | - |
| Purchase of financial assets at fair value through profit or loss | (165,000) | (80,000) |
| Disposal of financial assets at fair value through profit or loss | - | 100,001 |
| Acquisition of property, plant and equipment | (434,128) | (9,960) |
| Decrease in refundable deposits | - | 53 |
| Acquisition of intangible assets | (469) | (242) |
| Increase in prepayments for equipment | (<u>13,017</u>) | <u>-</u> |
| Net cash (used in)/generated from investing activities | (<u>407,929</u>) | <u>9,852</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Long-term loans | 300,000 | - |
| Repayment of the principal portion of lease liabilities | (2,215) | (2,294) |
| Payments to acquire treasury shares | <u>-</u> | (<u>16,466</u>) |
| Net cash generated from/(used in) from financing activities | <u>297,785</u> | (<u>18,760</u>) |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | | |
| | (<u>3,707</u>) | <u>7,627</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | |
| | (71,908) | 8,905 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD | | |
| | <u>527,760</u> | <u>589,555</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF PERIOD | | |
| | <u>\$ 455,852</u> | <u>\$ 598,460</u> |

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020 (Reviewed, Not Audited) (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

M31 Technology Corporation (the “Company”) was incorporated on October 21, 2011. The Company mainly offers Silicon IP design services in the integrated circuit industry.

The Company’s shares have been listed on the Taipei Exchange (TPEX) since January 2019.

The consolidated financial statements are presented in the Company’s functional currency, the New Taiwan Dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on May 4, 2021.

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

3.1 Initial application of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC).

The initial application of the IFRSs endorsed and issued into effect by the FSC would not have any material impact on M31 Technology Corporation and its controlled entities’ (the “Group”) accounting policies.

3.2 The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

| <u>New/Revised/Amended Standards and Interpretations</u> | <u>Effective Date Announced by IASB (Note 1)</u> |
|--|--|
| “Annual Improvements to IFRS Standards 2018–2020” | January 1, 2022 (Note 2) |
| Amendments to IFRS 3 “Reference to the Conceptual Framework” | January 1, 2022 (Note 3) |
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined by IASB |

(Continued)

| New/Revised/Amended Standards and Interpretations | Effective Date Announced by IASB (Note 1) |
|---|--|
| Amendments to IFRS 16 "COVID-19-Related Rent Concessions after June 30, 2021" | April 1, 2021 (Note 8) |
| IFRS 17 "Insurance Contracts" | January 1, 2023 |
| Amendments to IFRS 17 | January 1, 2023 |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" | January 1, 2023 |
| Amendments to IAS 1 "Disclosure of Accounting Policies" | January 1, 2023 (Note 6) |
| Amendments to IAS 8 "Definition of Accounting Estimates" | January 1, 2023 (Note 7) |
| Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use" | January 1, 2022 (Note 4) |
| Amendments to IAS 37 "Onerous Contracts—Cost of Fulfilling a Contract" | January 1, 2022 (Note 5) |

Note 1: Unless stated otherwise, the above New/Revised/Amended Standards and Interpretations are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. IAS 41 "Agriculture" amendments are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1, "First-time Adoptions of IFRSs", are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the annual reporting periods beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6: The amendments are applicable to any deferral for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur in annual reporting periods beginning on or after January 1, 2023.

Note 8: The amendments are effective for the lessees' annual reporting period beginning on April 1, 2021, and the cumulative effects are recognized at the beginning of the annual reporting periods.

As of the date the accompanying consolidated financial statements were authorized for issue, the Group continues in evaluating the impact on its financial position and financial performance resulting from the application of other standards or interpretations. The related impact will be disclosed when the evaluation is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” endorsed and issued into effect by the FSC. The consolidated financial statements do not present all required disclosures for a complete set of annual consolidated financial statements prepared under the IFRSs.

4.2 Basis of preparation

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

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

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

4.3 Basis of consolidation

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

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

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

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

Please refer to Note 11, Table 5, and Table 6 for the details, the ownership percentage, and the main business of subsidiaries.

4.4 Other significant accounting policies

Except for the following, please refer to the summary of significant accounting policies in the Company's consolidated financial statements for the year ended December 31, 2020.

Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax. The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Please refer to the Critical Accounting Judgments and Key Sources of Estimation Uncertainty in the Company's consolidated financial statements for the year ended December 31, 2020.

6. CASH AND CASH EQUIVALENTS

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|---|-----------------------|--------------------------|-----------------------|
| Cash on hand | \$ 57 | \$ 70 | \$ 70 |
| Checking accounts and demand deposits | 427,260 | 280,210 | 202,442 |
| Cash equivalents (investments with original maturities of less than 3 months) | | | |
| Time deposits | <u>28,535</u> | <u>247,480</u> | <u>395,948</u> |
| | <u>\$ 455,852</u> | <u>\$ 527,760</u> | <u>\$ 598,460</u> |

The market rates of cash in bank at balance sheet dates were as follows:

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|---------------|-----------------------|--------------------------|-----------------------|
| Bank deposits | 0.010%~0.260% | 0.010%~0.405% | 0.010%~2.400% |

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|---------------------------------|-----------------------|--------------------------|-----------------------|
| <u>Current</u> | | | |
| Mandatorily measured at FVTPL | | | |
| Non-derivative financial assets | | | |
| -fund beneficiary certificate | <u>\$ 609,944</u> | <u>\$ 444,616</u> | <u>\$ 485,442</u> |

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investment in equity instrument

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|--|-----------------------|--------------------------|-----------------------|
| <u>Non-current</u> | | | |
| Domestic investment | | | |
| Listed shares and emerging market shares | | | |
| Ordinary shares – iSTART-TEK Inc. | \$ <u>20,522</u> | \$ <u>28,000</u> | \$ <u>-</u> |
| Unlisted shares | | | |
| Ordinary shares – iSTART-TEK Inc. | \$ <u>-</u> | \$ <u>-</u> | \$ <u>9,350</u> |

These investments in equity instruments are held for the medium to long-term strategic purposes and are expected to bring profits from long-term investments. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

9. FINANCIAL ASSETS AT AMORTIZED COST

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|--|-----------------------|--------------------------|-----------------------|
| <u>Current</u> | | | |
| Domestic investments | | | |
| Time deposits with original maturities of more than 3 months | \$ <u>85,605</u> | \$ <u>227,840</u> | \$ <u>74,450</u> |

The ranges of interest rates for time deposits with original maturities of more than 3 months were 0.325% ~ 0.500%, 0.325% ~ 0.520%, and 1.035% ~ 2.300% as of March 31, 2021, December 31, 2020, and March 31, 2020, respectively.

10. ACCOUNTS RECEIVABLE

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|-------------------------------------|-----------------------|--------------------------|-----------------------|
| <u>Accounts receivable</u> | | | |
| At amortized cost | | | |
| Gross carrying amount | \$ 159,109 | \$ 259,323 | \$ 229,581 |
| Less: Allowance for impairment loss | (<u>5,917</u>) | (<u>4,711</u>) | (<u>6,824</u>) |
| | <u>\$ 153,192</u> | <u>\$ 254,612</u> | <u>\$ 222,757</u> |

Accounts receivable

As provided by contracts, payments shall be received for services rendered by the Group within 30 to 90 days from the completion of each phase. In determining the recoverability of accounts

receivable, the Group considers any change in the credit quality of the accounts receivable since the date the credit was initially granted to the balance sheet dates.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the key management personnel annually.

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

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

The Group writes off an account receivable when there is information indicating that the debtor is in severe financial difficulty, and there is no realistic prospect of recovery. For accounts receivable that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

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

March 31, 2021

| | Not Past Due | 1 to 60 Days | 61 to 120 Days | 121 to 180 Days | 181 to 365 Days | Over 365 Days | Total |
|-------------------------------|-------------------------|-------------------------|---------------------------|----------------------------|----------------------------|--------------------------|-------------------|
| Expected credit losses rate | 0%~0.32% | 0%~1.83% | 0%~8.41% | - | 0%~15.11% | 0%~100% | |
| Gross carrying amount | \$ 69,234 | \$ 49,179 | \$ 35,389 | \$ - | \$ 4,109 | \$ 1,198 | \$ 159,109 |
| Loss allowance (lifetime ECL) | (223) | (898) | (2,977) | - | (621) | (1,198) | (5,917) |
| Amortized cost | <u>\$ 69,011</u> | <u>\$ 48,281</u> | <u>\$ 32,412</u> | <u>\$ -</u> | <u>\$ 3,488</u> | <u>\$ -</u> | <u>\$ 153,192</u> |

December 31, 2020

| | Not Past Due | 1 to 60 Days | 61 to 120 Days | 121 to 180 Days | 181 to 365 Days | Over 365 Days | Total |
|-------------------------------|-------------------------|-------------------------|---------------------------|----------------------------|----------------------------|--------------------------|-------------------|
| Expected credit losses rate | 0%~0.21% | 0%~1.63% | 0%~3.27% | 0%~12.17% | 0%~13.99% | 0%~100% | |
| Gross carrying amount | \$ 166,371 | \$ 73,315 | \$ 13,044 | \$ 4,101 | \$ 293 | \$ 2,199 | \$ 259,323 |
| Loss allowance (lifetime ECL) | (350) | (1,195) | (427) | (499) | (41) | (2,199) | (4,711) |
| Amortized cost | <u>\$ 166,021</u> | <u>\$ 72,120</u> | <u>\$ 12,617</u> | <u>\$ 3,602</u> | <u>\$ 252</u> | <u>\$ -</u> | <u>\$ 254,612</u> |

March 31, 2020

| | Not Past Due | 1 to 60 Days | 61 to 120 Days | 121 to 180 Days | 181 to 365 Days | Over 365 Days | Total |
|-------------------------------|-------------------------|-------------------------|---------------------------|----------------------------|----------------------------|--------------------------|-------------------|
| Expected credit losses rate | 0%~0.24% | 0%~1.43% | 0%~5.72% | 0%~10.22% | 0%~13.47% | 0%~100% | |
| Gross carrying amount | \$ 109,196 | \$ 92,915 | \$ 11,931 | \$ 4,804 | \$ 7,712 | \$ 3,023 | \$ 229,581 |
| Loss allowance (lifetime ECL) | (257) | (1,332) | (682) | (491) | (1,039) | (3,023) | (6,824) |
| Amortized cost | <u>\$ 108,939</u> | <u>\$ 91,583</u> | <u>\$ 11,249</u> | <u>\$ 4,313</u> | <u>\$ 6,673</u> | <u>\$ -</u> | <u>\$ 222,757</u> |

The movements of the loss allowance of accounts receivable were as follows:

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|--|--|--|
| Balance, beginning of period | \$ 4,711 | \$ 2,820 |
| Add: Net remeasurement of loss allowance | 1,212 | 4,032 |
| Effect of exchange rate changes | (6) | (28) |
| Balance, end of period | <u>\$ 5,917</u> | <u>\$ 6,824</u> |

11. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements

The subjects of the consolidated financial statements are as follows:

| Investor | Investee | Nature of Activities | Proportion of Ownership (%) | | | Remark |
|---------------------|--------------------------------|--|------------------------------------|------------------------------|---------------------------|---------------|
| | | | March 31, 2021 | December 31, 2020 | March 31, 2020 | |
| The Company | M31 Technology USA, INC. | Product marketing and technical services | 100% | 100% | 100% | (1) |
| | Sirius Venture Ltd. | Investment holding | 100% | 100% | 100% | (1) |
| Sirius Venture Ltd. | M31 Technology (Shanghai) Inc. | Product marketing and technical services | 100% | 100% | 100% | (2) |

Remark:

- (1) The main operating risk is the exchange rate risk.
- (2) The main operational risks are the exchange rate risk and political risk led by changes in political policies and cross-strait relations.

12. PROPERTY, PLANT AND EQUIPMENT

Assets used by the Group

| | <u>Land</u> | <u>Buildings</u> | <u>Office Equipment</u> | <u>Leasehold Improvements</u> | <u>Other Facilities</u> | <u>Total</u> |
|--|-------------------|-------------------|-----------------------------|-----------------------------------|-----------------------------|-------------------|
| <u>Cost</u> | | | | | | |
| Balance at January 1, 2021 | \$ 98,853 | \$ - | \$ 69,642 | \$ 10,890 | \$ 98,447 | \$ 277,832 |
| Additions | 126,440 | 300,626 | 260 | - | - | 427,326 |
| Net exchange differences | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | (<u>2</u>) | (<u>2</u>) |
| Balance at March 31, 2021 | <u>\$ 225,293</u> | <u>\$ 300,626</u> | <u>\$ 69,902</u> | <u>\$ 10,890</u> | <u>\$ 98,445</u> | <u>\$ 705,156</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| Balance at January 1, 2021 | \$ - | \$ - | \$ 52,306 | \$ 6,100 | \$ 44,391 | \$ 102,797 |
| Depreciation expense | - | - | 1,505 | 673 | 5,097 | 7,275 |
| Net exchange differences | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | (<u>2</u>) | (<u>2</u>) |
| Balance at March 31, 2021 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 53,811</u> | <u>\$ 6,773</u> | <u>\$ 49,486</u> | <u>\$ 110,070</u> |
| Carrying amounts at March 31, 2021 | <u>\$ 225,293</u> | <u>\$ 300,626</u> | <u>\$ 16,091</u> | <u>\$ 4,117</u> | <u>\$ 48,959</u> | <u>\$ 595,086</u> |
| Carrying amounts at December 31, 2020, and January 1, 2021 | <u>\$ 98,853</u> | <u>\$ -</u> | <u>\$ 17,336</u> | <u>\$ 4,790</u> | <u>\$ 54,056</u> | <u>\$ 175,035</u> |
| <u>Cost</u> | | | | | | |
| Balance at January 1, 2020 | \$ 98,853 | \$ - | \$ 70,816 | \$ 23,433 | \$ 79,087 | \$ 272,189 |
| Additions | - | - | - | - | 9,960 | 9,960 |
| Net exchange differences | <u>-</u> | <u>-</u> | <u>3</u> | <u>-</u> | <u>2</u> | <u>5</u> |
| Balance at March 31, 2020 | <u>\$ 98,853</u> | <u>\$ -</u> | <u>\$ 70,819</u> | <u>\$ 23,433</u> | <u>\$ 89,049</u> | <u>\$ 282,154</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| Balance at January 1, 2020 | \$ - | \$ - | \$ 46,571 | \$ 14,604 | \$ 42,038 | \$ 103,213 |
| Depreciation expense | - | - | 2,100 | 1,246 | 4,122 | 7,468 |
| Net exchange differences | <u>-</u> | <u>-</u> | <u>2</u> | <u>-</u> | <u>1</u> | <u>3</u> |
| Balance at March 31, 2020 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 48,673</u> | <u>\$ 15,850</u> | <u>\$ 46,161</u> | <u>\$ 110,684</u> |
| Carrying amounts at March 31, 2020 | <u>\$ 98,853</u> | <u>\$ -</u> | <u>\$ 22,146</u> | <u>\$ 7,583</u> | <u>\$ 42,888</u> | <u>\$ 171,470</u> |

No impairment or reversal of losses was recognized for the three months ended March 31, 2021 and 2020.

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

| | |
|------------------------|-------------|
| Buildings | 35-50 years |
| Office Equipment | 3-5 years |
| Leasehold Improvements | 3 years |
| Other Facilities | 3 years |

13. LEASE AGREEMENT

13.1 Right-of-use assets

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|-------------------------------------|--|--|-----------------------|
| <u>Carrying amounts</u> | | | |
| Buildings | <u>\$ 2,003</u> | <u>\$ 4,186</u> | <u>\$ 10,940</u> |
| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> | |
| Additions to right-of-use assets | <u>\$ -</u> | <u>\$ 3,634</u> | |
| Depreciation of right-of-use assets | | | |
| Buildings | <u>\$ 2,186</u> | <u>\$ 2,204</u> | |

Except for the aforementioned addition and recognized depreciation expenses, the Group has no significant subleasing and impairment losses in right-of-use assets for the three months ended March 31, 2021 and 2020.

13.2 Lease liabilities

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|-------------------------|-----------------------|--------------------------|-----------------------|
| <u>Carrying amounts</u> | | | |
| Current | <u>\$ 1,157</u> | <u>\$ 3,074</u> | <u>\$ 8,853</u> |
| Non-current | <u>\$ 799</u> | <u>\$ 1,095</u> | <u>\$ 2,072</u> |

Discount rate for lease liabilities is as follows:

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|-----------|-----------------------|--------------------------|-----------------------|
| Buildings | 1.60% | 1.60% | 1.60% |

13.3 Other lease information

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|--|--|--|
| Expenses relating to short-term leases | <u>\$ 565</u> | <u>\$ 426</u> |
| Total cash outflow for leases | <u>(\$ 2,791)</u> | <u>(\$ 2,766)</u> |

The Group has elected to apply the recognition exemption to buildings qualified as short-term leases and thus, did not recognize right-of-use assets and lease liabilities for these leases.

All lease commitments with lease terms commencing after the balance sheet dates are as follows:

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|-------------------|-----------------------|--------------------------|-----------------------|
| Lease commitments | <u>\$ 2,351</u> | <u>\$ 16,101</u> | <u>\$ 22,023</u> |

14. INTANGIBLE ASSETS

| | <u>Software</u> |
|---|------------------|
| <u>Cost</u> | |
| Balance at January 1, 2021 | \$ 16,677 |
| Separately acquired | <u>469</u> |
| Balance at March 31, 2021 | <u>\$ 17,146</u> |
| <u>Accumulated amortization</u> | |
| Balance at January 1, 2021 | \$ 8,902 |
| Amortization expense | <u>911</u> |
| Balance at March 31, 2021 | <u>\$ 9,813</u> |
| Carrying amounts at March 31, 2021 | <u>\$ 7,333</u> |
| Carrying amounts at December 31, 2020 and January 1, 2021 | <u>\$ 7,775</u> |
| <u>Cost</u> | |
| Balance at January 1, 2020 | \$ 8,466 |
| Separately acquired | <u>242</u> |
| Balance at March 31, 2020 | <u>\$ 8,708</u> |
| <u>Accumulated amortization</u> | |
| Balance at January 1, 2020 | \$ 6,119 |
| Amortization expense | <u>706</u> |
| Balance at March 31, 2020 | <u>\$ 6,825</u> |
| Carrying amounts at March 31, 2020 | <u>\$ 1,883</u> |

Intangible assets are amortized on a straight-line basis over estimated useful lives of 3 years.

An analysis of amortization expense by function:

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|-------------------------------------|--|--|
| General and administrative expenses | \$ 295 | \$ 94 |
| Research and development expenses | <u>616</u> | <u>612</u> |
| | <u>\$ 911</u> | <u>\$ 706</u> |

15. OTHER ASSETS

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|---|-----------------------|--------------------------|-----------------------|
| <u>Current</u> | | | |
| Prepayments | \$ 55,083 | \$ 15,816 | \$ 29,860 |
| Refundable deposits | 7,987 | 7,987 | 1,867 |
| Other financial assets – restricted assets (Note 29) | 485 | 484 | - |
| Others | <u>7</u> | <u>4</u> | <u>4</u> |
| | <u>\$ 63,562</u> | <u>\$ 24,291</u> | <u>\$ 31,731</u> |
| <u>Non-current</u> | | | |
| Prepayments for equipment | \$ 26,035 | \$ 13,018 | \$ - |
| Refundable deposits | <u>100</u> | <u>100</u> | <u>6,070</u> |
| | <u>\$ 26,135</u> | <u>\$ 13,118</u> | <u>\$ 6,070</u> |

Ranges of market interest rate on balance sheet dates are set out as follows:

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|---|-----------------------|--------------------------|-----------------------|
| Other financial assets – restricted assets | 0.25% | 0.25% | - |

16. LOANS

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|---|-----------------------|--------------------------|-----------------------|
| <u>Long-term loans</u> | | | |
| <u>Guaranteed loans (Note 29)</u> | | | |
| Bank Loans | \$ 300,000 | \$ - | \$ - |
| Less: Long-term loans maturing within one year | (<u>18,498</u>) | <u>-</u> | <u>-</u> |
| Long-term loans | <u>\$ 281,502</u> | <u>\$ -</u> | <u>\$ -</u> |

In March 2021, the Group obtained a newly appropriated bank loan of NT\$300,000 thousand with an interest rate of 1.10% to be repaid monthly over 15 years, which was used to purchase land and buildings.

17. ACCOUNTS PAYABLE

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|-------------------------|-----------------------|--------------------------|-----------------------|
| <u>Accounts payable</u> | | | |
| Operating | <u>\$ 1,078</u> | <u>\$ 3,085</u> | <u>\$ 1,981</u> |

18. OTHER LIABILITIES

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|--|-----------------------|--------------------------|-----------------------|
| <u>Current</u> | | | |
| Other payables | | | |
| Payables for salaries or bonuses | \$ 34,707 | \$ 87,874 | \$ 30,562 |
| Payables for software | 12,312 | - | - |
| Payables for annual leave | 6,119 | 5,782 | 4,944 |
| Payables for purchases of equipment | 3,409 | 10,211 | 10,222 |
| Payables for insurance | 3,281 | 2,821 | 2,614 |
| Payables for retirement benefits | 3,238 | 3,031 | 2,847 |
| Payables for professional service fees | 728 | 1,160 | 663 |
| Payables for tax expense | - | 218 | 49 |
| Others | <u>2,438</u> | <u>3,540</u> | <u>4,239</u> |
| | <u>\$ 66,232</u> | <u>\$ 114,637</u> | <u>\$ 56,140</u> |
| Other liabilities | | | |
| Collection | <u>\$ 3,227</u> | <u>\$ 6,809</u> | <u>\$ 2,160</u> |

19. RETIREMENT BENEFIT PLANS

The Group adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. For subsidiaries located in other countries, the contributions to employees' individual pension accounts are made in accordance with local regulations.

20. EQUITY

20.1 Share capital

Ordinary shares

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|---|-----------------------|--------------------------|-----------------------|
| Number of shares authorized (in thousands) | <u>50,000</u> | <u>50,000</u> | <u>50,000</u> |
| Shares authorized | <u>\$ 500,000</u> | <u>\$ 500,000</u> | <u>\$ 500,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>31,318</u> | <u>31,318</u> | <u>31,318</u> |
| Shares issued | <u>\$ 313,180</u> | <u>\$ 313,180</u> | <u>\$ 313,180</u> |

20.2 Capital surplus

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|--|-----------------------|--------------------------|-----------------------|
| <u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u> | | | |
| Arising from issuance of ordinary shares | \$ 630,511 | \$ 630,511 | \$ 630,511 |
| <u>May be used to offset a deficit only (2)</u> | | | |
| Arising from employee share options | <u>4,040</u> | <u>4,040</u> | <u>4,040</u> |
| | <u>\$ 634,551</u> | <u>\$ 634,551</u> | <u>\$ 634,551</u> |

- (1) Such capital surplus may be used to offset a deficit; in addition, when the Group has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company’s capital surplus and to once a year).
- (2) Such capital surplus refers to the amount transferred from Capital surplus – employee share options during the execution of employee share options.

20.3 Retained earnings and dividend policy

The Company’s Articles of Incorporation state that, where the Company made profit in a fiscal year, the profit shall be first utilized in the following order:

- (1) Paying taxes.
- (2) Offsetting losses of previous years.
- (3) Setting aside as legal reserve 10% of the remaining profit until the amount of the accumulated legal reserve equals the amount of the Company’s capital.
- (4) Setting aside or reversing a special reserve in accordance with the laws and regulations.
- (5) Any remaining profit together with any undistributed retained earnings shall be used by the Company’s board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders’ meeting for the distribution of dividends and bonuses to shareholders.

The Company’s Articles of Incorporation state the policies on the distribution of employees’ compensation and remuneration of directors, refer to “Employees’ compensation and remuneration of directors” in Note 22 (7).

The Company’s Articles of Incorporation also provide that the ratio of cash dividend shall not be less than 10% of the total distribution of earnings.

Legal reserve shall be appropriated until the remaining balance reaches the Company’s total paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company’s paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of 2020 and 2019 earnings have been proposed and approved by the Company's Board of Directors in its meeting held on February 23, 2021, and by the Company's shareholders in its meeting held on May 29, 2020, respectively. The appropriations and dividends per share were set out as follows:

| | Year Ended December 31, 2020 | Year Ended December 31, 2019 |
|---------------------------------|---|---|
| Legal reserve | <u>\$ 33,064</u> | <u>\$ 30,856</u> |
| Cash dividends | <u>\$248,856</u> | <u>\$234,885</u> |
| Cash dividends per share (NT\$) | \$ 8.0 | \$ 7.5 |

The appropriations of earnings for 2020 are subject to the resolution of the shareholders' meeting to be held on May 27, 2021.

20.4 Other equity items

(1) Exchange differences on translating the financial statements of foreign operations

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|--|--|--|
| Balance, beginning of period | (\$ 604) | (\$ 67) |
| Recognized for the period | | |
| Exchange differences on translating the financial statements of foreign operations | 11 | 81 |
| Income tax on translating the financial statements of foreign operations | (2) | (16) |
| Balance, end of period | <u>(\$ 595)</u> | <u>(\$ 2)</u> |

(2) Unrealized gain (loss) on financial assets at FVTOCI

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|--|--|
| Balance, beginning of period | <u>\$ 23,564</u> | <u>\$ 3,250</u> |
| Recognized for the period | | |
| Unrealized gain (loss) | | |
| Equity instruments | <u>46,007</u> | <u>-</u> |
| Other comprehensive income (loss) for the period | <u>46,007</u> | <u>-</u> |
| Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal | (49,936) | <u>-</u> |
| Balance, end of period | <u>\$ 19,635</u> | <u>\$ 3,250</u> |

20.5 Treasury shares

| <u>Purpose of Buy-back</u> | <u>Shares Transferred to Employees (In Thousands of Shares)</u> |
|---|---|
| Number of shares at January 1, 2021 and March 31, 2021 | <u>211</u> |
| Number of shares at January 1, 2020 | - |
| Increase during the period | <u>83</u> |
| Number of shares at March 31, 2020 | <u>83</u> |

In March 16, 2020, the Board of Directors approved the Company's first repurchase of shares that authorized the purchase of up to 250 thousand shares from March 17, 2020 to May 16, 2020. The Company has repurchased 211 thousand shares in total with an average cost of 227.79 dollars.

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

As provided by the Securities and Exchange Act, the shares repurchased for the purpose of transferring to employees shall be transferred within five years from the date of reacquisition. The shares not transferred within the said time limit shall be deemed as not issued by the company, and amendment registration of eliminating shares shall be processed.

21. REVENUE

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|---------------------------|--|--|
| Technical service revenue | \$ 176,919 | \$ 171,164 |
| Royalty revenue | <u>36,216</u> | <u>25,121</u> |
| | <u>\$ 213,135</u> | <u>\$ 196,285</u> |

21.1 Contract information

(1) Technical service revenue

The department of Silicon IP design service signs contracts based on which the Group offers Silicon IP design service, and the customers shall pay the transaction price when the Group satisfies the performance obligation.

(2) Royalty revenue

Royalty revenue refers to the contract-based royalties received by the Group through licensing standardized Silicon IP to customers for mass production.

21.2 Contract balances

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> | <u>January 1, 2020</u> |
|--------------------------------|---------------------------|------------------------------|---------------------------|----------------------------|
| Accounts receivable (Note 10) | \$ 153,192 | \$ 254,612 | \$ 222,757 | \$ 179,282 |
| Contract liabilities - current | | | | |
| Technical service revenue | \$ 59,797 | \$ 90,167 | \$ 60,536 | \$ 27,531 |

The changes in the contract liabilities primarily result from the timing difference between the satisfaction of performance obligation and the customer's payment.

22. NET PROFIT FROM CONTINUING OPERATIONS

The net profit from continuing operations comprises the following items:

22.1 Interest income

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|-----------------------------|--|--|
| Bank deposits | \$ 261 | \$ 2,284 |
| Imputed interest on deposit | 45 | 66 |
| | <u>\$ 306</u> | <u>\$ 2,350</u> |

22.2 Other income

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|--------------|--|--|
| Other income | \$ 80 | \$ 311 |

22.3 Other gains and losses

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|--|--|--|
| Net foreign exchange (losses) gains | (\$ 3,019) | \$ 6,970 |
| Net interest from financial assets at fair value through profit or loss | 328 | 576 |
| | <u>(\$ 2,691)</u> | <u>\$ 7,546</u> |

22.4 Finance costs

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|-------------------------------|--|--|
| Interest on bank loans | \$ 55 | \$ - |
| Interest on lease liabilities | 11 | 46 |
| | <u>\$ 66</u> | <u>\$ 46</u> |

22.5 Depreciation and amortization

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|--|--|
| An analysis of depreciation by function | | |
| Operating expenses | <u>\$ 9,461</u> | <u>\$ 9,672</u> |
| An analysis of amortization by function | | |
| Operating expenses | <u>\$ 911</u> | <u>\$ 706</u> |

22.6 Employee benefits expense

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|--|--|--|
| Short-term employee benefits | <u>\$ 94,260</u> | <u>\$ 77,217</u> |
| Post-employment benefits | | |
| Defined contribution plans | 3,651 | 3,011 |
| Other employee benefits | | |
| Labor and health insurance | 5,016 | 5,285 |
| Other employee benefits | <u>2,515</u> | <u>2,330</u> |
| Total employee benefits expenses | <u>\$ 105,442</u> | <u>\$ 87,843</u> |
| An analysis of employee benefits expense by function | | |
| Operating expenses | <u>\$ 105,442</u> | <u>\$ 87,843</u> |

22.7 Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors at rates of no less than 1% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and the remuneration of directors for the three months ended March 31, 2021 and 2020 are set out as follows:

Accrual rate

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---------------------------|--|--|
| Employees' compensation | 1.20% | 1.20% |
| Remuneration of directors | 1.20% | 1.20% |

Amount

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---------------------------|--|--|
| Employees' compensation | <u>\$ 810</u> | <u>\$ 855</u> |
| Remuneration of directors | <u>\$ 810</u> | <u>\$ 855</u> |

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

The employees' compensation and the remuneration of directors for the years ended December 31, 2020 and 2019, which were approved by the Company's board of directors on February 23, 2021 and February 19, 2020, respectively, are set out as follows:

Amount

| | <u>Year Ended December 31, 2020</u> | <u>Year Ended December 31, 2019</u> |
|---------------------------|---|---|
| | <u>Cash</u> | <u>Cash</u> |
| Employees' compensation | <u>\$ 4,200</u> | <u>\$ 4,100</u> |
| Remuneration of directors | <u>\$ 4,200</u> | <u>\$ 4,100</u> |

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2020 and 2019.

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

22.8 Gains or losses on foreign currency exchange

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|-------------------------|--|--|
| Foreign exchange gains | \$ 57,198 | \$ 23,636 |
| Foreign exchange losses | (60,217) | (16,666) |
| Net (loss) profit | <u>(\$ 3,019)</u> | <u>\$ 6,970</u> |

23. INCOME TAXES RELATING TO CONTINUING OPERATIONS

23.1 Income tax recognized in profit or loss

The major components of income tax expense are set out as follows:

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|---|--|--|
| Current Tax | | |
| In respect of the current period | \$ 7,765 | \$ 9,070 |
| Deferred Tax | | |
| In respect of the current period | <u>2,612</u> | <u>1,206</u> |
| Income tax expense recognized in profit or loss | <u>\$ 10,377</u> | <u>\$ 10,276</u> |

23.2 Income tax recognized in other comprehensive income

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|---|--|--|
| <u>Deferred Tax</u> | | |
| In respect of the current period | | |
| Translation of foreign operations | <u>\$ 2</u> | <u>\$ 16</u> |
| Income tax recognized in other comprehensive income | <u>\$ 2</u> | <u>\$ 16</u> |

23.3 Income tax assessments

The tax authorities have examined income tax returns of the Company through 2019. The Group has no pending tax litigation as of March 31, 2021.

24. EARNINGS PER SHARE

Unit: NT\$ Per Share

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|----------------------------|--|--|
| Basic earnings per share | | |
| From continuing operations | \$ <u>1.79</u> | \$ <u>1.90</u> |
| Diluted earnings per share | | |
| From continuing operations | \$ <u>1.79</u> | \$ <u>1.90</u> |

The net profit and weighted average number of ordinary shares outstanding used in the computation of earnings per share are set out as follows:

Net Profit for the Period

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|--|--|--|
| Earnings used in the computation of basic and diluted earnings per share | \$ <u>55,637</u> | \$ <u>59,456</u> |

Number of Shares (in thousands of shares)

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|--|--|--|
| Weighted average number of ordinary shares used in the computation of basic earnings per share | 31,107 | 31,309 |
| Effect of potentially dilutive ordinary shares: | | |
| Employees' compensation | <u>10</u> | <u>11</u> |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>31,117</u> | <u>31,320</u> |

If the Group offered to settle the compensation paid to employees in cash or shares, the Group assumed that the entire amount of the compensation will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per shares, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

25. CASH FLOW INFORMATION

25.1 Non-cash transactions

For the three months ended March 31, 2021 and 2020, the Group entered into the following non-cash investing and financing activities which were not reflected in the consolidated statement of cash flows.

On March 31, 2021 and 2020, the Group respectively acquired property, plant and equipment of \$3,409 thousand and \$10,222 thousand, which are recognized as payables on equipment. Please refer to Note 18.

25.2 Changes in liabilities arising from financing activities

Three Months Ended March 31, 2021

| | <u>January 1, 2021</u> | <u>Cash Flows</u> | <u>Non-cash Changes Exchange Rate Changes</u> | <u>March 31, 2021</u> |
|-------------------|------------------------|-------------------|---|-----------------------|
| Lease liabilities | \$ 4,169 | (\$ 2,215) | \$ 2 | \$ 1,956 |
| Long-term loans | - | 300,000 | - | 300,000 |
| | <u>\$ 4,169</u> | <u>\$ 297,785</u> | <u>\$ 2</u> | <u>\$ 301,956</u> |

Three Months Ended March 31, 2020

| | <u>January 1, 2020</u> | <u>Cash Flows</u> | <u>Non-Cash Changes New Leases</u> | <u>March 31, 2020</u> |
|-------------------|------------------------|---------------------|--|-----------------------|
| Lease liabilities | <u>\$ 9,585</u> | (<u>\$ 2,294</u>) | <u>\$ 3,634</u> | <u>\$ 10,925</u> |

26. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of issued ordinary shares, capital surplus, retained earnings and other equity.

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

Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders and the number of new shares issued.

27. FINANCIAL INSTRUMENTS

27.1 Fair value of financial instruments not measured at fair value

The management personnel of the Group believes that the carrying amounts of financial assets and financial liabilities in the consolidated financial statements that are not measured at fair value approximate their fair values.

27.2 Fair value of financial instruments measured at fair value on a recurring basis

(1) Fair value hierarchy

March 31, 2021

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| <u>Financial assets at FVTPL</u> | | | | |
| Beneficiary certificate of funds | \$ 609,944 | \$ - | \$ - | \$ 609,944 |
| <u>Financial assets at FVTOCI</u> | | | | |
| Investments in equity instruments | | | | |
| -- Listed shares and emerging market shares | \$ 20,522 | \$ - | \$ - | \$ 20,522 |

December 31, 2020

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| <u>Financial assets at FVTPL</u> | | | | |
| Beneficiary certificate of funds | \$ 444,616 | \$ - | \$ - | \$ 444,616 |
| <u>Financial assets at FVTOCI</u> | | | | |
| Investments in equity instruments | | | | |
| -- Listed shares and emerging market shares | \$ - | \$ - | \$ 28,000 | \$ 28,000 |

March 31, 2020

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------------|----------------|----------------|----------------|--------------|
| <u>Financial assets at FVTPL</u> | | | | |
| Beneficiary certificate of funds | \$ 485,442 | \$ - | \$ - | \$ 485,442 |
| <u>Financial assets at FVTOCI</u> | | | | |
| Investments in equity instruments | | | | |
| -- Unlisted shares | \$ - | \$ - | \$ 9,350 | \$ 9,350 |

There were no transfers between levels 1 and 2 for the three months ended March 31, 2021 and 2020.

(2) Reconciliation of Level 3 fair value measurements of financial instruments

Three Months Ended March 31, 2021

| <u>Financial Assets</u> | <u>Financial Assets at FVTOCI Equity Instruments</u> |
|--|--|
| Balance, beginning of period | \$ 28,000 |
| Recognized in other comprehensive income | 46,007 |
| Disposals | (53,485) |
| Balance, end of period | \$ 20,522 |

Three Months Ended March 31, 2020

| <u>Financial Assets</u> | <u>Financial Assets at FVTOCI</u> |
|---|---------------------------------------|
| <u>Balance at the beginning and the end of the period</u> | <u>Equity Instruments</u> |
| | \$ 9,350 |

(3) Valuation techniques and inputs applied for Level 3 fair value measurement

| <u>Financial Instruments Category</u> | <u>Evaluation Techniques and Input Values</u> |
|---------------------------------------|--|
| Unlisted shares | It is based on the estimated value of its assets and liabilities in order to obtain the target or end-of-period observable share price consideration, comparing the assets and liabilities or income statement items, calculating the implied value multiplier of the price, and estimating the value of the target. |

27.3 Categories of financial instruments

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|------------------------------------|-----------------------|--------------------------|-----------------------|
| <u>Financial assets</u> | | | |
| FVTPL | | | |
| Mandatorily classified as at FVTPL | \$ 609,944 | \$ 444,616 | \$ 485,442 |
| Amortized cost (1) | 710,404 | 1,018,878 | 903,604 |
| FVTOCI | | | |
| Investment in equity instrument | 20,522 | 28,000 | 9,350 |
| <u>Financial liabilities</u> | | | |
| Amortized cost (2) | 319,965 | 17,996 | 17,105 |

- (1) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost-current, accounts receivable, other receivables, other financial assets (recognized in other current assets) and refundable deposits (recognized in other current assets and other non-current assets).
- (2) The balances include financial liabilities measured at amortized cost, which comprise accounts payable and other payables (not including payables for salaries or bonuses, payables for annual leave, payables for retirement benefit, payables for insurance, and payables for tax expense) and long-term loans (including long-term loans maturing within one year).

27.4 Financial risk management objectives and policies

The Group's major instruments include equity investments, accounts receivable, accounts payable, and lease liabilities. The Group's corporate financial management function provides services to the business, coordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The corporate financial management function reports quarterly to the board of directors, which functions to monitor risks and policies implemented to mitigate risk exposures.

(1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (refer to (1.1) below), interest rates (refer to (1.2) below), and other price risks (refer to (1.3) below).

(1.1) Foreign currency risks

The Group has foreign currency denominated service transactions, which expose the Group to foreign currency risk.

The carrying amounts of the Group's non-functional currency denominated monetary assets and monetary liabilities (including the non-functional currency monetary items that have been written off in the consolidated financial statement) at the balance sheet dates are set out in Note 30.

Sensitivity analysis

The Group is mainly exposed to the exchange rate fluctuation of the United States Dollar (USD).

The following table details the Group's sensitivity to a 1% increase/decrease in the New Taiwan dollar (NTD, the functional currency) against the USD. The sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with the functional currency weakening 1% against the USD. For a 1% strengthening of the functional currency against the USD, there would be an equal and opposite impact on pre-tax profit, and the balances below would be negative.

| | USD Impact | |
|----------------|---------------------------|---------------------------|
| | Three Months Ended | Three Months Ended |
| | March 31, 2021 | March 31, 2020 |
| Profit or loss | \$ 4,363 | \$ 8,193 |

The aforementioned profit or loss mainly results from the exposure on outstanding USD denominated bank deposits and accounts receivable at the balance sheet dates.

The Group's sensitivity to foreign currency decreased during the current year mainly due to the decrease in USD denominated bank deposits.

(1.2) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the balance sheet dates are set out as follows:

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|-------------------------------|-----------------------|--------------------------|-----------------------|
| Fair value interest rate risk | | | |
| – Financial assets | \$ 114,140 | \$ 475,320 | \$ 470,397 |
| – Financial liabilities | 1,956 | 4,169 | 10,925 |
| Cash flow interest rate risk | | | |
| – Financial assets | 424,684 | 278,690 | 199,381 |
| – Financial liabilities | 300,000 | - | - |

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for both derivative and non-derivative instruments at the balance sheet dates. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable possible change in interest rates.

If interest rates had been 100 basis points increase/decrease and all other variables were held constant, the Group's pre-tax profit for the three months ended March 31, 2021 and 2020 would increase/decrease by \$312 thousands and \$489 thousands, respectively, mainly resulting from the Group's variable-rate bank deposits and the variable risk part of long-term loans.

The Group's sensitivity to interest rates decreased during the current year mainly due to the decrease in variable-rate bank deposits and the increase in long-term loans.

(1.3) Other price risk

The Group was exposed to equity price risk mainly through its investments in equity securities.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the balance sheet dates.

If equity prices had been 1% higher/lower, the pre-tax profit for the three months ended March 31, 2021 and 2020 would have increased/decreased by \$6,099 thousand and \$4,854 thousands, respectively, resulting from the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the three months ended March 31, 2021 and 2020 would have increased/decreased by \$205 thousands and \$94 thousands respectively, resulting from the changes in fair value of financial assets at FVTOCI.

(2) Credit risks

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. At the balance sheet dates, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to the failure of the counterparty to discharge its obligation (not considering collaterals or other credit enhancement instruments, and the irrevocable maximum amount of risk exposure), mainly arises from the carrying amount of the recognized financial assets as stated in the consolidated balance sheets.

The Group has adopted a policy of only dealing with creditworthy counterparties.

To reduce credit risks, the Group's management personnel shall appoint a dedicated team to determine the credit limit, conduct credit examination and approval, and implement other monitoring procedures to ensure that necessary measures are taken to recover overdue receivables. Moreover, the Group shall review the recovery of each receivable on each balance sheet date to ensure that adequate allowances are made for unrecoverable receivables. Therefore, the Group's management believes that the Group's credit risk has been greatly reduced.

The Group's concentration of credit risk was mainly attributable to the Group's three largest customers, which accounted for 14%, 58%, and 53% of total accounts receivable as of March 31, 2021, December 31, 2020, and March 31, 2020, respectively.

(3) Liquidity risk

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

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

The maturity analysis for non-derivative financial liabilities is prepared based on the undiscounted cash flows (including both principal cash and interest) of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed upon repayment dates.

March 31, 2021

| | <u>Less than 3 Months</u> | <u>3 Months to 1 Year</u> | <u>Over 1 Years</u> |
|---|-------------------------------|-------------------------------|---------------------|
| <u>Non-derivative financial liabilities</u> | | | |
| Non-interest bearing | \$ 19,965 | \$ - | \$ - |
| Long-term loans | 4,605 | 13,893 | 281,502 |
| Lease liabilities | <u>2,227</u> | <u>886</u> | <u>803</u> |
| | <u>\$ 26,797</u> | <u>\$ 14,779</u> | <u>\$ 282,305</u> |

Additional information about the maturity analysis for lease liabilities:

| | <u>Less than 1 Year</u> | <u>Over 1 Years</u> |
|-------------------|-------------------------|---------------------|
| Lease liabilities | <u>\$ 3,113</u> | <u>\$ 803</u> |

December 31, 2020

| | <u>Less than 3 Months</u> | <u>3 Months to 1 Year</u> | <u>Over 1 Years</u> |
|---|-------------------------------|-------------------------------|---------------------|
| <u>Non-derivative financial liabilities</u> | | | |
| Non-interest bearing | \$ 17,996 | \$ - | \$ - |
| Lease liabilities | <u>2,227</u> | <u>876</u> | <u>1,102</u> |
| | <u>\$ 20,223</u> | <u>\$ 876</u> | <u>\$ 1,102</u> |

Additional information about the maturity analysis for lease liabilities:

| | <u>Less than 1 Year</u> | <u>Over 1 Years</u> |
|-------------------|-------------------------|---------------------|
| Lease liabilities | <u>\$ 3,103</u> | <u>\$ 1,102</u> |

March 31, 2020

| | <u>Less than 3 Months</u> | <u>3 Months to 1 Year</u> | <u>Over 1 Years</u> |
|---|-------------------------------|-------------------------------|---------------------|
| <u>Non-derivative financial liabilities</u> | | | |
| Non-interest bearing | \$ 17,105 | \$ - | \$ - |
| Lease liabilities | <u>2,236</u> | <u>6,716</u> | <u>2,099</u> |
| | <u>\$ 19,341</u> | <u>\$ 6,716</u> | <u>\$ 2,099</u> |

Additional information about the maturity analysis for lease liabilities:

| | <u>Less than 1 Year</u> | <u>Over 1 Years</u> |
|-------------------|-------------------------|---------------------|
| Lease liabilities | <u>\$ 8,952</u> | <u>\$ 2,099</u> |

(3.2) Financing Amount

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|--------------------------|-----------------------|--------------------------|-----------------------|
| Secured bank loan amount | | | |
| — Amount utilized | \$ 300,000 | \$ - | \$ - |
| — Unutilized amount | <u>-</u> | <u>300,000</u> | <u>-</u> |
| | <u>\$ 300,000</u> | <u>\$ 300,000</u> | <u>\$ -</u> |

28. TRANSACTIONS WITH RELATED PARTIES

The transactions, balances, gains and losses between the Company and its subsidiaries (which are related parties of the Company) have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed as follows.

Compensation of key management personnel

| | <u>Three Months Ended March 31, 2021</u> | <u>Three Months Ended March 31, 2020</u> |
|------------------------------|--|--|
| Short-term employee benefits | \$ 4,160 | \$ 3,860 |
| Post-employment benefits | <u>99</u> | <u>81</u> |
| | <u>\$ 4,259</u> | <u>\$ 3,941</u> |

The remuneration of directors and key management personnel, as determined by the remuneration committee, was based on the performance of individuals and market trends.

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

| | <u>March 31, 2021</u> | <u>December 31, 2020</u> | <u>March 31, 2020</u> |
|--|-----------------------|--------------------------|-----------------------|
| Property, plant and equipment | \$ 427,066 | \$ - | \$ - |
| Pledged time deposits (classified as other financial assets – current) | <u>485</u> | <u>484</u> | <u>-</u> |
| | <u>\$ 427,551</u> | <u>\$ 484</u> | <u>\$ -</u> |

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

March 31, 2021

| | <u>Foreign Currencies (In Thousands)</u> | <u>Exchange Rate</u> | <u>Carrying Amount (In Thousands)</u> |
|------------------------------|--|----------------------|---|
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 15,774 | 28.535 (USD : NTD) | \$ 450,111 |
| RMB | 61 | 4.344 (RMB : NTD) | 265 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 484 | 28.535 (USD : NTD) | 13,811 |

December 31, 2020

| | <u>Foreign Currencies (In Thousands)</u> | <u>Exchange Rate</u> | <u>Carrying Amount (In Thousands)</u> |
|------------------------------|--|----------------------|---|
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 23,177 | 28.480 (USD : NTD) | \$ 660,081 |
| RMB | 61 | 4.377 (RMB : NTD) | 267 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 132 | 28.480 (USD : NTD) | 3,759 |

March 31, 2020

| | <u>Foreign Currencies (In Thousands)</u> | <u>Exchange Rate</u> | <u>Carrying Amount (In Thousands)</u> |
|------------------------------|--|----------------------|---|
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 27,197 | 30.225 (USD : NTD) | \$ 822,029 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 90 | 30.225 (USD : NTD) | 2,720 |

The significant unrealized foreign exchange gains (losses) were as follows:

| <u>Foreign Currency</u> | <u>Three Months Ended March 31, 2021</u> | | <u>Three Months Ended March 31, 2020</u> | |
|-----------------------------|--|---------------------------------------|--|---------------------------------------|
| | <u>Exchange Rate</u> | <u>Net Foreign Exchange Gains</u> | <u>Exchange Rate</u> | <u>Net Foreign Exchange Gains</u> |
| USD | 28.366 (USD : NTD) | \$ 6,958 | 30.106 (USD : NTD) | \$ 10,365 |

31. SEPARATELY DISCLOSED ITEMS

31.1 Significant transactions and 31.2 Information about investees:

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

31.3 Information on investments in mainland China

- (1) The name of the investee company in mainland China, the principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, current profit and loss, recognized investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 6.
- (2) Any of the following significant transactions with investee companies in mainland China,

either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: Table 6.

- (2.1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
- (2.2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
- (2.3) The amount of property transactions and the amount of the resultant gains or losses.
- (2.4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
- (2.5) The highest balance, the ending balance, the interest rate range, and total current period interest with respect to the financing of funds.
- (2.6) 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 receipt of services.

31.4 Major shareholder information: The name, the number and percentage of shareholding of shareholders whose percentage of ownership is more than 5%.

| Shareholder Name | Shares | |
|-------------------------------------|-------------|-----------------------------|
| | Shares Held | Percentage of Ownership (%) |
| Hsiao-Ping Lin | 6,604,000 | 21.08% |
| Huey-Ling Chen | 4,564,000 | 14.57% |
| Jui-Chun Investment Company Limited | 1,642,000 | 5.24% |

32. SEGMENT INFORMATION

Industrial financial information

The Group is regarded a significant operating segment that offers services of Silicon IP design. Furthermore, the Group's chief operating decision maker reviews the Group's financial reports for resource allocation and performance assessment. Therefore, the operational information does not need to be disclosed by segments.

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

MARCH 31, 2021

(In Thousands of New Taiwan Dollars, Thousands of Shares/Units)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | March 31, 2021 | | | | Note |
|----------------------|---|---------------------------------------|---|------------------------|-----------------|-----------------------------|------------|------|
| | | | | Number of Shares/Units | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| The Company | <u>Shares</u> ISTART-TEK INC. | — | Financial assets at fair value through other comprehensive income — non-current | 80 | \$ 20,522 | 0.36 | \$ 20,522 | — |
| | <u>Fund beneficiary certificate</u> Taishin 1699 Money Market Fund | — | Financial assets at fair value through profit or loss — current | 11,749 | 160,442 | - | 160,442 | — |
| | FSITC Money Market Fund | — | Financial assets at fair value through profit or loss — current | 1,291 | 232,297 | - | 232,297 | — |
| | Hua Nan Phoenix Money Market Fund | — | Financial assets at fair value through profit or loss — current | 9,585 | 157,151 | - | 157,151 | — |
| | FSITC Taiwan Money Market Fund | — | Financial assets at fair value through profit or loss — current | 3,888 | 60,054 | - | 60,054 | — |

Note: For relevant information on investment in subsidiaries, please refer to Table 5 and Table 6.

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

**MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2021
(In Thousands of New Taiwan Dollars, Thousands of Units)**

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Beginning Balance | | Acquisition | | Disposal | | | | Ending Balance | |
|--------------|--|---|-------------------|-----------|-----------------|------------|-----------------|--------|-----------------|-------------------------|-----------------|---------------|
| | | | Number of Units | Amount | Number of Units | Amount | Number of Units | Amount | Carrying Amount | Gain (Loss) on Disposal | Number of Units | Amount (Note) |
| The Company | Fund beneficiary certificate Taishin 1699 Money Market Fund | Financial assets at fair value through profit or loss - current | 4,425 | \$ 60,389 | 7,324 | \$ 100,000 | - | \$ - | \$ - | \$ - | 11,749 | \$ 160,442 |

Note: The amount per book at fair value at the end of the period.

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2021
(In Thousands of New Taiwan Dollars)**

| Acquisition Company Name | Property Type | Purchase Day | Transaction Amount | Payment | Counterparty | Relationship | Counterpart is Related Party, the Information of Previous Transfer | | | | Price Determination Reference | Purpose of Acquisition and Usage | Other Matters |
|--------------------------|--------------------|--------------|--------------------|------------|---------------------|--------------|--|------------------------------|---------------|--------|-------------------------------|----------------------------------|---------------|
| | | | | | | | Owner | Relationship with the Issuer | Transfer Date | Amount | | | |
| The Company | Land and buildings | 3/22/2021 | \$ 437,758 | \$ 437,758 | Winsome Development | — | N/A | N/A | N/A | N/A | Decided by mutual agreement | Operational use | None |

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2021
(In Thousands of New Taiwan Dollars)**

| No. (Note 1) | Company | Counterparty | Relationship (Note 2) | Transaction Details | | | |
|-----------------|----------------------------|----------------------------|--------------------------|---------------------------------------|-----------------|--|--|
| | | | | Financial Statement Accounts | Amount (Note 5) | Payment Terms | Percentage of Total Sales or Assets (Note 3) |
| 0 | M31 Technology Corporation | M31 Technology USA, INC. | 1 | Service revenue | \$ 7,453 | Decided by mutual agreement based on market price | 3 |
| | | | 1 | Accounts receivable- related-party | 51,228 | | 2 |
| 1 | M31 Technology USA, INC. | M31 Technology Corporation | 2 | Accounts receivable- related-party | 1,398 | Net 30 days from the end of the transaction month | - |
| | | | 2 | Marketing revenue | 11,324 | | Decided by mutual agreement based on market price |

Note 1: Transactions between parent company and subsidiaries should be detailed on the column of No. The meaning of the numbers are as follow:

- (1) Number 0 represents the parent company.
- (2) Subsidiaries are numbered in sequence from Number 1.

Note 2: The transaction relationships are classified as the following three types. Just mark the number of the relationship type:

- (1) Transactions from parent company to subsidiary.
- (2) Transactions from subsidiary to parent company.
- (3) Transactions from subsidiary to subsidiary.

Note 3: In the computation of percentage of consolidated revenue/assets, if the amount is the ending balance of assets or liabilities, the accounts percentage will be calculated by dividing the consolidated assets; if the amount is the amount of income or expense, the accounts percentage will be cumulated by dividing the consolidated revenues in the same period.

Note 4: This form is presented in New Taiwan Dollar (NTD). The amount that involves foreign currencies will be translated into NTD at the exchange rate on balance sheet dates, while the amount related to gains and losses are translated into NTD at the average exchange rate in the first quarter.

Note 5: This table only shows one-way transaction information. The above transactions have been written off when the consolidated financial statement was prepared.

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

**INFORMATION ON INVESTEEES
FOR THE THREE MONTHS ENDED MARCH 31, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investor Company | Investee Company | Location | Principal Business Activities | Original Investment Amount | | As of March 31, 2021 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) | Note |
|------------------|---------------------------|------------------------|---|----------------------------|----------------|----------------------|-----|-----------------|-----------------------------------|------------------------|-------------------------------|
| | | | | March 31, 2021 | March 31, 2020 | Number of Shares | % | Carrying Amount | | | |
| The Company | M31 Technology USA , INC. | USA | Product marketing and technical service | \$ 13,351 | \$ 13,351 | 450,000 | 100 | \$ 13,790 | \$ 131 | \$ 131 | Subsidiaries accounted by USD |
| | Sirius Venture Ltd. | Republic of Seychelles | Investment Holdings | 5,364 | 5,364 | 167,000 | 100 | 2,343 | (108) | (108) | Subsidiaries accounted by USD |

Note 1: The above transaction have been written off when the consolidated financial statement was prepared.

Note 2: For relevant information on investee companies in mainland China, please refer to Table 6.

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

TABLE 6

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE THREE MONTHS ENDED MARCH 31, 2021
(In Thousands of New Taiwan Dollars or United States Dollars)**

1. The name of investee companies in mainland China, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment gain or loss, carrying amount of the investment, repatriations of investment income:

| Investee Company | Principal Business Activities | Paid-in Capital | Method of Investment (Note 1) | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2021 | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of March 31, 2021 | Net Income (Loss) of the investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2 and Note 3) | Carrying Amount as of March 31, 2021 (Note 2 and Note 3) | Accumulated Repatriation of Investment Income as of March 31, 2021 | Note |
|--------------------------------|---|-----------------|-------------------------------|---|---------------------|--------|--|-----------------------------------|--|--|--|--|------|
| | | | | | Outward | Inward | | | | | | | |
| M31 Technology (Shanghai) Inc. | Product marketing and technical service | USD 100 | (2) | \$ 3,340 | \$ - | \$ - | \$ 3,340 | (\$ 108) | 100% | (\$ 108) | \$ 2,189 | \$ - | — |

2. Limit on the amount of investment in the mainland China:

| Accumulated Outward Remittance for Investments in Mainland China as of March 31, 2021 | Investment Amount Authorized by the Investment Commission, MOEA | Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA |
|---|---|--|
| \$ 3,340 | \$ 3,340 | \$ 966,412 |

Note 1: Three investment methods are listed below. Just mark the method number.

- (1) Direct investment in mainland China companies.
- (2) Indirect investment in mainland China companies through a company in a third region (Sirius Venture Ltd.).
- (3) Other methods of investing in mainland China.

Note 2: Columns for the current Investment Gain (Loss) and the Carrying Value as of March 31, 2021:

Sirius Venture Ltd. had recognized the Investment Gain (Loss) on the investment in the Investee Company M31 Technology (Shanghai) Inc. for the three months ended March 31, 2021 and the Carrying Value as of March 31, 2021.

Note 3: Calculated based on the reviewed quarterly financial report of the parent company in Taiwan.

Note 4: The above transactions have been written off when the consolidated financial statement was prepared.

3. Significant transaction with investee companies in mainland China, either directly or indirectly through a third party:

- (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 ending balance, the interest rate range, and total current period interest with respect to the 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 receipt of services: None.