

M31 Technology Corporation

**Parent Company Only Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

DELOITTE

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

M31 Technology Corporation

Opinion

We have audited the accompanying parent company only financial statements of M31 Technology Corporation (the "Company"), which comprise the parent company only balance sheet as of December 31, 2019 and 2018, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statement, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China,

And we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Risk of Improper Recognition of Technical Service Revenue

The major revenue source of the Company is technical service revenue resulting from offering silicon intellectual property (SIP) service. The timing of revenue recognition changes between contracts, thereby taking potential risks of improper revenue recognition timing prior to the satisfaction of performance obligations, particularly of technical service revenue in Phase I contracts. Therefore, we list the recognition of technical service revenue as a key audit matter. Please refer to Note 4, point 10, for relevant accounting policies.

We exercise audit processes as below towards the aforementioned risk of improper recognition of technical service revenue:

1. Understand the design and operating effectiveness of the Company's internal control systems relevant to the recognition of technical service revenue from Phase I contracts.

2. Sample the technical service revenue from Phase I contracts recognized in 2019, checking relevant documents and receivable collections, reviewing critical contract provisions, for the purpose of ensuring the proper timing of revenue recognition.
3. Sample the technical service revenue from Phase I contracts recognized in a period before/after the balance sheet dates to perform the cut-off test, for the purpose of ensuring proper satisfaction of performance obligations and revenue recognition prior to the balance sheet dates.

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

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

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

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

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

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

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

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

based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chung-Chen Chen and Cheng-Chuan Yu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 26, 2020

Notice to Readers

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

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

M31 TECHNOLOGY CORPORATION

PARENT COMPANY ONLY BALANCE SHEETS

DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 571,204	36	\$ 342,934	36
Financial assets at fair value through profit or loss – current (Notes 4 and 7)	504,867	31	50,031	5
Financial assets at amortized cost - current (Notes 4 and 9)	73,960	5	61,430	6
Accounts receivable (Notes 4, 5, 10 and 21)	179,282	11	218,962	23
Accounts receivable - related parties (Notes 4, 21 and 29)	4,272	-	17,170	2
Other receivables	482	-	-	-
Current tax assets (Notes 4 and 23)	28,005	2	6,818	1
Prepayments (Note 15)	17,143	1	11,173	1
Other financial assets - current (Notes 15 and 30)	-	-	55,287	6
Other current assets (Note 15)	1,868	-	2,746	-
Total current assets	<u>1,381,083</u>	<u>86</u>	<u>766,551</u>	<u>80</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	9,350	1	8,260	1
Investments accounted for using the equity method (Notes 4 and 11)	16,037	1	15,296	2
Property, plant and equipment (Notes 4 and 12)	168,841	11	153,220	16
Right-of-use assets (Notes 3, 4 and 13)	9,509	1	-	-
Intangible assets (Notes 4 and 14)	2,347	-	4,565	-
Deferred tax assets (Notes 4 and 23)	7,841	-	6,116	1
Other non-current assets (Note 15)	5,964	-	5,407	-
Total non-current assets	<u>219,889</u>	<u>14</u>	<u>192,864</u>	<u>20</u>
TOTAL	\$ 1,600,972	100	\$ 959,415	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 16 and 30)	\$ -	-	\$ 40,000	4
Contract liabilities - current (Notes 21)	27,531	2	58,015	6
Accounts payable (Notes 17)	2,079	-	1,821	-
Other payables (Note 18)	89,651	6	88,411	9
Other payables - related parties (Note 29)	1,276	-	1,259	-
Current tax liabilities (Notes 3, 4 and 23)	23,607	1	19,414	2
Lease liabilities - current (Notes 3, 4 and 13)	7,652	1	-	-
Other current liabilities (Note 18)	5,614	-	5,198	1
Total current liabilities	<u>157,410</u>	<u>10</u>	<u>214,118</u>	<u>22</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 23)	60	-	183	-
Lease liabilities - non-current (Notes 3, 4 and 13)	1,933	-	-	-
Total non-current liabilities	<u>1,993</u>	<u>-</u>	<u>183</u>	<u>-</u>
Total liabilities	<u>159,403</u>	<u>10</u>	<u>214,301</u>	<u>22</u>
EQUITY (Note 20)				
Share capital				
Ordinary shares	313,180	19	286,400	30
Capital surplus	634,551	40	53,851	6
Retained earnings				
Legal reserve	61,727	4	33,736	4
Unappropriated earnings	428,928	27	367,580	38
Total retained earnings	490,655	31	401,316	42
Other equity	3,183	-	3,547	-
Total equity	<u>1,441,569</u>	<u>90</u>	<u>745,114</u>	<u>78</u>
TOTAL	\$ 1,600,972	100	\$ 959,415	100

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

M31 TECHNOLOGY CORPORATION

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

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 21 and 29)	\$ 867,404	100	\$ 759,099	100
GROSS PROFIT	867,404	100	759,099	100
OPERATING EXPENSES (Notes 14, 22 and 29)				
Selling and marketing expenses	(47,776)	(5)	(47,833)	(6)
General and administrative expenses	(96,535)	(11)	(76,890)	(10)
Research and development expenses	(364,892)	(42)	(320,872)	(42)
Expected credit gain(loss) (Notes 4, 5 and 10)	10,493	1	(11,837)	(2)
Total operating expenses	(498,710)	(57)	(457,432)	(60)
OPERATING INCOME	368,694	43	301,667	40
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 22)	7,572	1	4,318	-
Other gains and losses (Notes 4 and 22)	(15,148)	(2)	20,497	3
Finance costs (Note 22)	(342)	-	(1,623)	-
Share of profit of subsidiaries (Notes 4)	1,183	-	3,932	-
Total non-operating income and expenses	(6,735)	(1)	27,124	3
PROFIT BEFORE INCOME TAX	361,959	42	328,791	43
INCOME TAX EXPENSE (Notes 4 and 23)	(53,394)	(6)	(48,884)	(6)
NET PROFIT FOR THE YEAR	308,565	36	279,907	37

(Continued)

	2019		2018	
	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)	(\$ 10)	-	\$ 2,460	-
Items that may be reclassified subsequently to profit or loss: :				
Exchange differences on translating the financial statements of foreign operations (Notes 4 and 20)	(442)	-	269	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4, 20 and 23)	<u>88</u>	-	(<u>57</u>)	-
Other comprehensive income (loss) for the year, net of income tax	(<u>364</u>)	-	<u>2,672</u>	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 308,201</u>	<u>36</u>	<u>\$ 282,579</u>	<u>37</u>
EARNINGS PER SHARE (Note 24)				
Basic	<u>\$ 9.90</u>		<u>\$ 9.77</u>	
Diluted	<u>\$ 9.89</u>		<u>\$ 9.77</u>	

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

M31 TECHNOLOGY CORPORATION

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

	Ordinary Shares	Capital Surplus	Retained Earnings		Other Equity		Total Equity
			Legal Reserve	Unappropriated Earnings	Exchange Differences 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, 2018	\$ 286,400	\$ 41,945	\$ 15,107	\$ 234,182	\$ 75	\$ 1,800	\$ 579,509
Appropriation of 2017 earnings (Notes 20)							
Legal reserve	-	-	18,629	(18,629)	-	-	-
Cash dividends distributed by the Company	-	-	-	(128,880)	-	-	(128,880)
Net profit for the year ended December 31, 2018	-	-	-	279,907	-	-	279,907
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax (Notes 20)	-	-	-	-	212	2,460	2,672
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	279,907	212	2,460	282,579
Disposal of investments in equity instruments designated as at fair value through other comprehensive income (Notes 8 and 20)	-	-	-	1,000	-	(1,000)	-
Other changes in capital surplus (Notes 20)	-	11,906	-	-	-	-	11,906
BALANCE AT DECEMBER 31, 2018	286,400	53,851	33,736	367,580	287	3,260	745,114
Appropriation of 2018 earnings (Notes 20)							
Legal reserve	-	-	27,991	(27,991)	-	-	-
Cash dividends distributed by the Company	-	-	-	(219,226)	-	-	(219,226)
Net profit for the year ended December 31, 2019	-	-	-	308,565	-	-	308,565
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax (Notes 20)	-	-	-	-	(354)	(10)	(364)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	308,565	(354)	(10)	308,201
Proceeds from issuance of ordinary shares (Notes 20)	26,780	578,692	-	-	-	-	605,472
Share-based payment (Notes 20)	-	826	-	-	-	-	826
Other changes in capital surplus (Notes 20)	-	1,182	-	-	-	-	1,182
BALANCE AT DECEMBER 31, 2019	\$ 313,180	\$ 634,551	\$ 61,727	\$ 428,928	(\$ 67)	\$ 3,250	\$ 1,441,569

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

M31 TECHNOLOGY CORPORATION

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 361,959	\$ 328,791
Adjustments for:		
Expected credit (gain) loss	(10,493)	11,837
Depreciation expenses	35,100	21,778
Amortization expenses	2,691	2,583
Net gain on fair value changes of financial assets at fair value through profit or loss	(2,840)	(124)
Finance costs	342	1,623
Interest income	(6,812)	(4,308)
Share-based payment	826	-
Share of profit of subsidiaries	(1,183)	(3,932)
Unrealized loss (gain) on foreign currency exchange	16,584	(15,333)
Changes in operating assets and liabilities		
Accounts receivable	47,820	(52,803)
Accounts receivable - related parties	12,875	(6,146)
Other receivables	(482)	-
Prepayments	(5,970)	5,569
Other current assets	847	(848)
Contract liabilities	(30,484)	4,538
Accounts payable	285	419
Other payables	4,273	11,695
Other payables - related parties	17	232
Other current liabilities	416	673
Cash generated from operations	425,771	306,244
Interest received	6,812	4,308
Interest paid	(342)	(1,623)
Income tax paid	(72,148)	(54,056)
Net cash generated from operating activities	<u>360,093</u>	<u>254,873</u>

(Continued)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(\$ 1,100)	\$ -
Proceeds from sale of financial assets at fair value through other comprehensive income	-	2,000
Purchase of financial assets at fair value through profit or loss	(782,000)	(219,000)
Proceeds from disposal of financial assets at fair value through profit or loss	330,004	169,093
Purchase of financial assets at amortized cost	(13,620)	(61,660)
Acquisition of property, plant and equipment	(41,348)	(24,396)
Increase in refundable deposits	(5,313)	(81)
Acquisition of intangible assets	(473)	(2,214)
Decrease in other finance assets	55,494	19,606
Increase in prepayments for equipment	<u>-</u>	<u>(4,787)</u>
Net cash used in investing activities	<u>(458,356)</u>	<u>(121,439)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(40,000)	(20,000)
Repayment of the principal portion of lease liabilities	(7,531)	-
Dividends paid	(219,226)	(128,880)
Proceeds from issuance of ordinary shares	608,472	-
Payment of shares issuance costs	(3,000)	-
Others	<u>1,182</u>	<u>11,906</u>
Net cash generated from/(used in) financing activities	<u>339,897</u>	<u>(136,974)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(13,364)</u>	<u>13,253</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	228,270	9,713
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>342,934</u>	<u>333,221</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 571,204</u>	<u>\$ 342,934</u>

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

M31 TECHNOLOGY CORPORATION

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

M31 Technology Corporation (the “Company”) was incorporated on October 21th, 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 parent company only financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the Company’s board of directors on February 19, 2020.

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

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

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

IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease” and a number of related interpretations. Please refer to Note 4 for relevant accounting policies.

The definition of lease

The Company elects to apply the guidance of IFRS 16, in determining whether contracts are, or contain, a lease, only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not be reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

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

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

The Company also applies the following practical expedients:

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

The weighted average lessee's incremental borrowing rate used by the Company to calculate lease liabilities recognized on January 1, 2019 is 1.60%. The reconciliation between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is presented as follows:

The future minimum lease payments of non-cancellable operating lease on December 31, 2018	\$ 4,397
Add: Adjustments as a result of a different treatment of extension and purchase options	17,591
Less: Recognition exemption for short-term leases	(4,575)
Undiscounted gross amounts on January 1, 2019	<u>\$17,413</u>
Discounted using the incremental borrowing rate on January 1, 2019	<u>\$17,116</u>
Lease liabilities recognized on January 1, 2019	<u>\$17,116</u>

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

	As Originally Stated on <u>January 1, 2019</u>	Adjustments Arising from <u>Initial Application</u>	Restated on <u>January 1, 2019</u>
Right-of-use assets	\$ -	\$ 17,116	\$ 17,116
Total effect on assets	<u>\$ -</u>	<u>\$ 17,116</u>	<u>\$ 17,116</u>
Lease liabilities - current	\$ -	\$ 7,531	\$ 7,531
Lease liabilities - non-current	-	9,585	9,585
Total effect on liabilities	<u>\$ -</u>	<u>\$ 17,116</u>	<u>\$ 17,116</u>

The following table shows the amount affected in 2019 by the application of the original IFRSs endorsed and issued into effect by the FSC in 2018:

Impact on Assets, Liabilities and Equity in 2019

	<u>December 31, 2019</u>
Decrease in right-of-use assets	(\$ 9,509)
Decrease in assets	(\$ 9,509)
Decrease in lease liabilities - current	(\$ 7,652)
Decrease in lease liabilities - non-current	(1,933)
Increase in current tax liabilities	<u>15</u>
Decrease in liabilities	(\$ 9,570)
Increase in retained earnings	\$ 61
Increase in equity	<u>\$ 61</u>

Impact on cash flows in 2019

	<u>Year Ended December 31, 2019</u>
Net increase in cash outflow from operating activities	(\$ 7,531)
Net increase in cash inflow from financing activities	<u>7,531</u>
Total effect on cash and cash equivalents	<u>\$ -</u>

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

<u>New/Revised/Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

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

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

Amendments to IAS 1 and IAS 8 “Definition of Material”

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

Except for the above impact, as of the date the parent company only financial statements were authorized for issue, the Company 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.

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

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

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

Except for the above impact, as of the date the parent company only financial statements were authorized for issue, the Company 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

- a. Statement of compliance

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

- b. Basis of preparation

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

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

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

When preparing the parent company only financial statements, the Company accounts for subsidiaries by using the equity method. In order to agree with the amount of net profit, other comprehensive income, and equity for the year attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for using equity method, share of profit (loss) of subsidiaries accounted for using equity method, and share of other comprehensive income of subsidiaries, as appropriate, in the parent company only financial statements.

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the balance sheet dates; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet dates.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the balance sheet dates; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the balance sheet dates.

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

d. Foreign currencies

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

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

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

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

For the purpose of presenting parent company only financial statements, the assets and liabilities of the Company's foreign operations (including subsidiaries locating in other countries or using currencies different from the currency of the Company) are translated into NT\$ using exchange rates prevailing at the balance sheet dates. Income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, investments in subsidiaries are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

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

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

When the Company transacts with its subsidiaries, profit and loss resulting from the transactions with the subsidiaries are recognized in the parent company only financial statements and only to the extent of interests in the subsidiaries that are not owned by the Company.

f. Property, plant and equipment

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

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effects of any changes in the estimates accounted for on a prospective basis.

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

g. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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

h. Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of a corporate asset, the asset is tested for impairment in the context of the cash-generating unit (CGU) to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

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

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

i. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at fair value through other comprehensive income (FVTOCI).

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any remeasurement gains or losses (not including any dividend or interest) on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 28.

ii. Financial assets at amortized cost

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

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

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

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

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

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities of less than three months, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

At each balance sheet date, the Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable).

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

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

For internal credit risk management purposes, the Company determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Company):

- i. Internal or external information show that the debtor is unlikely to pay its creditors.
- ii. When a financial asset is more than 365 days past due unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

c) Derecognition of financial assets

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

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

difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

j. Revenue recognition

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

1) Revenue from the rendering of services

The Company identifies performance obligations from contracts with customers and recognizes revenue when performance obligations are satisfied.

2) Licensing revenue

The functionality of the silicon intellectual property (Silicon IP) are not changed in silicon intellectual property (Silicon IP) licensing transactions. Furthermore, such silicon intellectual property (Silicon IP) remains functional without updates and technical support. While customers use the intellectual property in mass production at the foundries, the royalty prices are determined based on production, sales or other measures and the revenue is recognized with reference to the underlying arrangements.

k. Lease

2019

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

The Company as lessee

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

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

depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the parent company only balance sheets.

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

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

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

2018

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

The Company as lessee

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

l. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

m. Share-based payment arrangements

Employee share options granted to employees

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

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

n. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred taxes

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key Sources of Estimation Uncertainty

Estimated impairment of financial assets

The provision for impairment of accounts receivable is based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's historical experience, existing market conditions as well as forward looking estimates. For details of the key assumptions and inputs used, see Note 10. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand	\$ 70	\$ 55
Checking accounts and demand deposits	147,469	222,234
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	<u>423,665</u>	<u>120,645</u>
	<u>\$ 571,204</u>	<u>\$ 342,934</u>

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Bank deposits	0.01% ~ 2.33%	0.01% ~ 2.60%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Mandatorily measured at FVTPL		
Non-derivative financial assets		
-fund beneficiary certificate	<u>\$ 504,867</u>	<u>\$ 50,031</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Non-current</u>		
Investments in equity instruments at FVTOCI	<u>\$ 9,350</u>	<u>\$ 8,260</u>
<u>Non-current</u>		
Domestic investments		
Unlisted shares		
Ordinary shares –		
iSTART-TEK Inc. (Note)	<u>\$ 9,350</u>	<u>\$ 8,260</u>

Note: Hoy technologies has changed its registered name to iSTART-TEK Inc. in January, 2019.

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. 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 Company's strategy of holding these investments for long-term purposes.

In March, 2018, the Company sold its ordinary shares in iSTART-TEK Inc. in order to manage credit concentration risk. The shares sold had a fair value of \$2,000 thousand and its related FVTOCI unrealized valuation gain of \$1,000 thousand was transferred from other equity to retained earnings.

9. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Current</u>		
Domestic investments		
Time deposits with original maturities of more than 3 months	<u>\$ 73,960</u>	<u>\$ 61,430</u>

The ranges of interest rates for time deposits with original maturities of more than 3 months were 1.04%-2.30% and 2.75% per annum as of December 31, 2019 and 2018, respectively.

10. ACCOUNTS RECEIVABLE

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 182,102	\$ 228,623
Less: Allowance for impairment loss	(<u>2,820</u>)	(<u>9,661</u>)
	<u>\$ 179,282</u>	<u>\$ 218,962</u>

Accounts receivable

As provided by contracts, payments shall be received 30 to 90 days after the service has been rendered by the Company. In determining the recoverability of accounts receivables, the Company considers any change in the credit quality of the accounts receivables since the date the credit was initially granted to the balance sheet dates.

The Company adopted a policy of only dealing with creditworthy counterparties, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company'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 risk management committee annually.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual account 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 Company's credit risk was significantly reduced.

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

The Company writes off 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 Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

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

December 31, 2019

	<u>Not Past Due</u>	<u>1 to 60 Days</u>	<u>61 to 120 Days</u>	<u>121 to 180 Days</u>	<u>181 to 365 Days</u>	<u>Over 365 Days</u>	<u>Total</u>
Expected Credit Losses rate	0.25%	1.58%	6.02%	10.84%	14.92%	100%	
Gross carrying amount	\$118,745	\$43,071	\$11,706	\$3,468	\$5,112	\$ -	\$182,102
Loss allowance (lifetime ECL)	(<u>294</u>)	(<u>682</u>)	(<u>705</u>)	(<u>376</u>)	(<u>763</u>)	-	(<u>2,820</u>)
Amortized cost	<u>\$118,451</u>	<u>\$42,389</u>	<u>\$11,001</u>	<u>\$3,092</u>	<u>\$4,349</u>	<u>\$ -</u>	<u>\$179,282</u>

December 31, 2018

	<u>Not Past Due</u>	<u>1 to 60 Days</u>	<u>61 to 120 Days</u>	<u>121 to 180 Days</u>	<u>181 to 365 Days</u>	<u>Over 365 Days</u>	<u>Total</u>
Expected Credit Losses rate	0.47%	2.69%	4.41%	7.27%	12.36%	100%	
Gross carrying amount	\$134,089	\$57,148	\$13,822	\$16,616	\$1,456	\$5,492	\$228,623
Loss allowance (lifetime ECL)	(<u>634</u>)	(<u>1,537</u>)	(<u>610</u>)	(<u>1,208</u>)	(<u>180</u>)	(<u>5,492</u>)	(<u>9,661</u>)
Amortized cost	<u>\$133,455</u>	<u>\$55,611</u>	<u>\$13,212</u>	<u>\$15,408</u>	<u>\$1,276</u>	<u>\$ -</u>	<u>\$218,962</u>

The movements of the loss allowance of accounts receivable are set out as follows:

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Balance at January 1	\$ 9,661	\$ 4,803
Add: Amounts recovered	3,583	-
Add: Net remeasurement of loss allowance	-	11,837
Less: Amounts written off	-	(6,979)
Less: Net remeasurement of loss allowance	(10,493)	-
Foreign exchange gains and losses	69	-
Balance at December 31	<u>\$ 2,820</u>	<u>\$ 9,661</u>

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Investments in subsidiaries		
— M31 Technology USA, INC.	\$ 12,976	\$ 11,963
— Sirius Venture Ltd.	<u>3,061</u>	<u>3,333</u>
	<u>\$ 16,037</u>	<u>\$ 15,296</u>

At the balance sheet dates, the proportions of ownership and voting rights in subsidiaries held by the Corporation are set out as follows:

Proportion of Ownership and Voting Rights

Name of Subsidiaries	Proportion of Ownership and Voting Rights	
	December 31, 2019	December 31, 2018
M31 Technology USA, INC.	100%	100%
Sirius Venture Ltd.	100%	100%

The investments in subsidiaries (M31 Technology USA, INC. and Sirius Venture Ltd.) accounted for using the equity method, the share of net profit or loss and other comprehensive (loss) income from investments were calculated based on the audited financial statements.

Refer to Note 33 for Indirect Subsidiaries of the Company.

12. PROPERTY, PLANT AND EQUIPMENT

a. Assets used by the Company – 2019

	Land	Office Equipment	Leasehold Improvements	Other Facilities	Total
<u>Cost</u>					
Balance at January 1, 2019	\$ 98,853	\$ 51,398	\$ 22,285	\$ 56,553	\$ 229,089
Additions	-	14,867	1,148	22,312	38,327
Disposals	-	(543)	-	-	(543)
Reclassified (Note)	-	4,787	-	-	4,787
Balance at December 31, 2019	<u>\$ 98,853</u>	<u>\$ 70,509</u>	<u>\$ 23,433</u>	<u>\$ 78,865</u>	<u>\$ 271,660</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2019	\$ -	\$ 40,191	\$ 9,752	\$ 25,926	\$ 75,869
Disposals	-	(543)	-	-	(543)
Depreciation expense	-	6,660	4,852	15,981	27,493
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 46,308</u>	<u>\$ 14,604</u>	<u>\$ 41,907</u>	<u>\$ 102,819</u>
Carrying amounts at December 31, 2019	<u>\$ 98,853</u>	<u>\$ 24,201</u>	<u>\$ 8,829</u>	<u>\$ 36,958</u>	<u>\$ 168,841</u>

Note : Transferred from Prepayments for equipment.

No impairment assessment was performed for the year ended December 31, 2019 as there was no indication of impairment.

The Company's property, plant and equipment were depreciated on a straight-line basis over the following estimated useful life:

Office Equipment	3-5 years
Leasehold Improvements	3 years
Other Facilities	3 years

b. Assets used by the Company – 2018

	<u>Land</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Other Facilities</u>	<u>Total</u>
<u>Cost</u>					
Balance at January 1, 2018	\$ 98,853	\$ 43,914	\$ 12,966	\$ 57,700	\$ 213,433
Additions	-	7,484	9,319	14,314	31,117
Disposals	-	-	-	(15,461)	(15,461)
Balance at December 31, 2018	<u>\$ 98,853</u>	<u>\$ 51,398</u>	<u>\$ 22,285</u>	<u>\$ 56,553</u>	<u>\$ 229,089</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2018	\$ -	\$ 34,299	\$ 6,357	\$ 28,896	\$ 69,552
Depreciation expense	-	5,892	3,395	12,491	21,778
Disposals	-	-	-	(15,461)	(15,461)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 40,191</u>	<u>\$ 9,752</u>	<u>\$ 25,926</u>	<u>\$ 75,869</u>
Carrying amounts at December 31, 2018	<u>\$ 98,853</u>	<u>\$ 11,207</u>	<u>\$ 12,533</u>	<u>\$ 30,627</u>	<u>\$ 153,220</u>

No impairment assessment was performed for the year ended December 31, 2018 as there was no indication of impairment.

The Company's property, plant and equipment were depreciated on a straight-line basis over the following estimated useful life:

Office Equipment	3 years
Leasehold Improvements	3 years
Other Facilities	3 years

13. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	<u>December 31, 2019</u>
<u>Carrying amounts</u>	
Buildings	<u>\$ 9,509</u>
	<u>Year Ended</u>
	<u>December 31, 2019</u>
Depreciation of right-of-use assets	
Buildings	<u>\$ 7,607</u>

b. Lease liabilities - 2019

	<u>December 31, 2019</u>
<u>Carrying amounts</u>	
Current	<u>\$ 7,652</u>
Non-current	<u>\$ 1,933</u>

Discount rate for lease liabilities is set out as follows:

	December 31, 2019
Buildings	<u>1.60%</u>

c. Other lease information

2019

	Year Ended December 31, 2019
Expenses relating to short-term leases	<u>\$ 950</u>
Total cash outflow for leases	<u>(\$ 8,689)</u>

The Company 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.

Expenses relating to short-term leases also include expenses relating to leases for which the lease terms end on or before December 31, 2019 and for which the recognition exemption is applied. The amount of lease commitments for short-term leases for which the recognition exemption is applied (including lease commitments for short-term leases with lease terms commencing after the balance sheet dates) was \$416 thousand as of December 31, 2019.

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

	December 31, 2019
Lease commitments	<u>\$ 20,774</u>

2018

Future minimum lease payments under non-cancellable operating leases are set out as follows:

	December 31, 2018
Not later than 1 year	\$ 3,910
Later than 1 year and not later than 5 years	<u>487</u>
	<u>\$ 4,397</u>

The lease payments recognized in profit or loss are set out as follows:

	Year Ended December 31, 2019
Minimum lease payments	<u>\$ 950</u>

14. INTANGIBLE ASSETS

	<u>Patents</u>	<u>Software</u>	<u>Total</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ 11,041	\$ 24,821	\$ 35,862
Separately acquired	-	473	473
Disposals	(11,041)	(16,828)	(27,869)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 8,466</u>	<u>\$ 8,466</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2019	\$ 11,041	\$ 20,256	\$ 31,297
Amortization expense	-	2,691	2,691
Disposals	(11,041)	(16,828)	(27,869)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 6,119</u>	<u>\$ 6,119</u>
Carrying amounts at December 31, 2019	<u>\$ -</u>	<u>\$ 2,347</u>	<u>\$ 2,347</u>
<u>Cost</u>			
Balance at January 1, 2018	\$ 11,041	\$ 22,607	\$ 33,648
Separately acquired	-	2,214	2,214
Balance at December 31, 2018	<u>\$ 11,041</u>	<u>\$ 24,821</u>	<u>\$ 35,862</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2018	\$ 11,041	\$ 17,673	\$ 28,714
Amortization expense	-	2,583	2,583
Balance at December 31, 2018	<u>\$ 11,041</u>	<u>\$ 20,256</u>	<u>\$ 31,297</u>
Carrying amounts at December 31, 2018	<u>\$ -</u>	<u>\$ 4,565</u>	<u>\$ 4,565</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>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
General and administrative expenses	\$ 376	\$ 232
Research and development expenses	2,315	2,351
	<u>\$ 2,691</u>	<u>\$ 2,583</u>

15. OTHER ASSETS

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Current</u>		
Prepayments	\$ 17,143	\$ 11,173
Refundable deposit	1,867	1,898
Other financial assets — restricted assets (Note 30)	-	55,287
Other	<u>1</u>	<u>848</u>
	<u>\$ 19,011</u>	<u>\$ 69,206</u>
<u>Non-current</u>		
Prepayments for equipment	\$ -	\$ 4,787
Refundable deposit	<u>5,964</u>	<u>620</u>
	<u>\$ 5,964</u>	<u>\$ 5,407</u>

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other financial assets — restricted assets	-	2.53%

16. BORROWING

Short-term borrowings

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Bank loans (Note 30)	<u>\$ -</u>	<u>\$ 40,000</u>
Ranges of interest rate	-	1.60%

17. ACCOUNTS PAYABLE

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Accounts payable</u>		
Operating	<u>\$ 2,079</u>	<u>\$ 1,821</u>

18. OTHER LIABILITIES

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Current</u>		
Other payables		
Payables for salaries or bonuses	\$ 69,339	\$ 65,284
Payables for annual leave	4,593	4,010
Payables for professional service fee	4,229	4,069
Payables for purchases of equipment	3,700	6,721
Payables for retirement benefit	2,766	2,447
Payables for insurance	2,632	2,246
Payables for tax expense	183	250
Others	<u>2,209</u>	<u>3,384</u>
	<u>\$ 89,651</u>	<u>\$ 88,411</u>
Other liabilities		
Receipt under custody	<u>\$ 5,614</u>	<u>\$ 5,198</u>

19. RETIREMENT BENEFIT PLANS

The Company adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

20. EQUITY

a. Ordinary shares

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Numbers of shares authorized (in thousands)	<u>50,000</u>	<u>50,000</u>
Shares authorized	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Number of shares issued and fully paid (in thousands)	<u>31,318</u>	<u>28,640</u>
Shares issued	<u>\$ 313,180</u>	<u>\$ 286,400</u>

On September 25, 2018, the Company’s board of directors resolved to issue 2,678 thousand ordinary shares for capital increase for Initial Public Offering, with a par value of \$10 each. The aforementioned capital increase includes Weighted Average Price NTD 238.57 from bidding auctions, 1,928 thousand ordinary shares from bidding, and a fixed underwriting price of NTD 198 per share, 611 thousand underwriting shares to be offered, and 139 thousand ordinary shares of employee stock, amounting to NTD 605,472 thousand in total (3,000 thousand are deducted for stock issuance cost). The difference between the par value and the issuing price is \$578,692 thousand, which is recognized at capital surplus – ordinary share premiums, increasing the share capital issued and fully paid to \$313,180 thousand.

On October 12, 2018, the above transaction was approved by the TPEX, and the subscription base date was determined by the board of directors to be January 21, 2019.

b. Capital surplus

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note 1)</u>		
Arising from issuance of ordinary shares	\$ 630,511	\$ 50,637
<u>May be used to offset a deficit only (Note 2)</u>		
Arising from employee share options	<u>4,040</u>	<u>3,214</u>
	<u>\$ 634,551</u>	<u>\$ 53,851</u>

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

Note 2: Such capital surplus refers to the amount transferred from Capital surplus – employee share options during the execution of employee share options.

The Balance adjustment in capital surplus in 2019 and 2018 are set out as follows:

	Arising from issuance of ordinary shares	Arising from employee share options	Employee share options	Total
Balance at January 1, 2018	\$ 38,731	\$ 3,214	\$ -	\$ 41,945
Other (Note)	<u>11,906</u>	<u>-</u>	<u>-</u>	<u>11,906</u>
Balance at December 31, 2018	<u>\$ 50,637</u>	<u>\$ 3,214</u>	<u>\$ -</u>	<u>\$ 53,851</u>
Balance at January 1, 2019	\$ 50,637	\$ 3,214	\$ -	\$ 53,851
Recognized as stock-based compensation	-	-	826	826
Cash Capital Increase	578,692	826	(826)	578,692
Other (Note)	<u>1,182</u>	<u>-</u>	<u>-</u>	<u>1,182</u>
Balance at December 31, 2019	<u>\$ 630,511</u>	<u>\$ 4,040</u>	<u>\$ -</u>	<u>\$ 634,551</u>

Note: When the Company employees resign during the stock trust period, the Employee Stock Trust Management Committee will sold the trust holding shares of resigned employees to the third parties based on the trust deed. After deducting the amount of money that should be returned to the employee, the remaining amount remitted back to the company was \$1,182 thousand and \$11,906 thousand in 2019 and 2018, respectively, both of which were regarded as the Company's issuance of stocks after repurchase, being credited under the equity account "capital surplus - share premium."

c. Retained earnings and dividend policy

The Company's Articles of Incorporation state that, where the Company made profit in a fiscal year, the profit shall be first utilized 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.

For the policies on the distribution of employees' compensation and remuneration of directors, refer to "Employees' compensation and remuneration of directors" in Note 22 (f).

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.

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 earnings for 2018 and 2017 which had been approved in the shareholders' meetings on May 30, 2019 and May 24, 2018, respectively, are set out as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2018	Year Ended December 31, 2017
Legal reserve	\$ 27,991	\$ 18,629	\$ -	\$ -
Cash dividends	219,226	128,880	7	4.5

The appropriations of earnings for 2019 had been proposed by the Company's board of directors on February 19, 2020. The appropriations and dividends per share are set out as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 30,856	\$ -
Cash dividends	234,885	7.5

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on May 29, 2020.

d. Other equity items

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Balance at January 1	\$ 287	\$ 75
Effect of change in tax rate	-	(3)
Recognized for the year		
Exchange differences on translating the financial statements of foreign operations	(442)	269
Interest income tax on translating the financial statements of foreign operations	88	(54)
Balance at December 31	<u>(\$ 67)</u>	<u>\$ 287</u>

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Balance at January 1	\$ 3,260	\$ 1,800
Recognized for the year		
Unrealized (loss) gain Equity instruments	(10)	2,460
Cumulative unrealized (loss) gain of equity instruments transferred to retained earnings due to disposal	-	(1,000)
Balance at December 31	<u>\$ 3,250</u>	<u>\$ 3,260</u>

21. REVENUE

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Technical service revenue	\$ 785,968	\$ 681,816
Royalty revenue	<u>81,436</u>	<u>77,283</u>
	<u>\$ 867,404</u>	<u>\$ 759,099</u>

a. Contract information

1) Technical service revenue

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

2) Royalty revenue

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

b. Contract balances

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Accounts receivables (Note 10)	<u>\$ 179,282</u>	<u>\$ 218,962</u>	<u>\$ 179,111</u>
Accounts receivables – related parties (Note 29)	<u>\$ 4,272</u>	<u>\$ 17,170</u>	<u>\$ 10,962</u>
Contract liabilities - current			
Technical service revenue	<u>\$ 27,531</u>	<u>\$ 58,015</u>	<u>\$ 53,477</u>

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

Revenue of the reporting period recognized from the beginning contract liabilities in the previous periods is set out as follows:

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
From the beginning contract liabilities		
Technical service revenue	<u>\$ 58,015</u>	<u>\$ 53,477</u>

As provided by each contract, the revenue from unsatisfied performance obligations are expected to be recognized within 1 year.

22. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Interest income		
Bank deposits	\$ 6,755	\$ 4,285
Imputed interest on deposit	57	23
Others	<u>760</u>	<u>10</u>
	<u>\$ 7,572</u>	<u>\$ 4,318</u>

b. Other gains and losses

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Gain of financial asset		
Financial assets mandatorily measured at fair value through profit or loss	\$ 2,840	\$ 124
Net foreign exchange (loss) gain	(<u>17,988</u>)	<u>20,373</u>
	<u>(\$ 15,148)</u>	<u>\$ 20,497</u>

c. Finance costs

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Bank loans interest	\$ 134	\$ 1,623
Lease liabilities interest	<u>208</u>	<u>-</u>
	<u>\$ 342</u>	<u>\$ 1,623</u>

d. Depreciation and amortization

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
An analysis of depreciation by function		
Operating expenses	<u>\$ 35,100</u>	<u>\$ 21,778</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 2,691</u>	<u>\$ 2,583</u>

e. Employee benefits expense

	Year Ended December 31, 2019	Year Ended December 31, 2018
Short-term employee benefits	\$ 285,264	\$ 249,432
Post-employment benefits		
Defined contribution plans	10,475	9,380
Share-based payments	826	-
Other employee benefits		
Labor and health insurance	16,541	14,385
Other employee benefits	<u>5,964</u>	<u>5,414</u>
Total	<u>\$ 319,070</u>	<u>\$ 278,611</u>

An analysis of employee benefits expense by function

Operating expenses	<u>\$ 319,070</u>	<u>\$ 278,611</u>
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f. 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 years ended December 31, 2019 and 2018, which were approved by the Company's board of directors on February 19, 2020 and March 4, 2019, respectively, are set out as follows:

Accrual rate

	Year Ended December 31, 2019	Year Ended December 31, 2018
Employees' compensation	1.11%	1.30%
Remuneration of directors	1.11%	1.20%

Amount

	Year Ended December 31, 2019	Year Ended December 31, 2018
	Cash	Cash
Employees' compensation	\$ 4,100	\$ 4,381
Remuneration of directors	4,100	4,050

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

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

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

g. Gains or losses on foreign currency exchange

	Year Ended December 31, 2019	Year Ended December 31, 2018
Foreign exchange gains	\$ 5,362	\$ 39,643
Foreign exchange losses	(23,350)	(19,270)
Net profit (losses)	<u>(\$ 17,988)</u>	<u>\$ 20,373</u>

23. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax expense recognized in profit or loss

Major components of income tax expense are as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Current tax		
In respect of the current year	\$ 51,191	\$ 43,606
Additional income tax on unappropriated earnings	1,685	3,878
Non-deductible foreign income tax	622	2,286
Adjustments for prior years	<u>1,656</u>	<u>(1,668)</u>
	<u>55,154</u>	<u>48,102</u>
Deferred tax		
In respect of the current year	(1,760)	1,980
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>(1,198)</u>
	<u>(1,760)</u>	<u>782</u>
Income tax expense recognized in profit or loss	<u>\$ 53,394</u>	<u>\$ 48,884</u>

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Profit before tax from continuing operations	<u>\$ 361,959</u>	<u>\$ 328,791</u>
Income tax expense calculated at the statutory rate	\$ 72,392	\$ 65,758
Tax-exempt income	(332)	175
Non-deductible foreign income tax	622	2,286
Additional income tax on unappropriated earnings	1,685	3,878
Unrecognized deductible temporary differences	32	3
Current research and development tax credit	(22,661)	(20,350)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	(1,198)
Adjustments for prior years' tax	<u>1,656</u>	<u>(1,668)</u>
Income tax expense recognized in profit or loss	<u>\$ 53,394</u>	<u>\$ 48,884</u>

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

As the status of 2020 appropriations of earnings is uncertain, the potential income tax consequences of 2019 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
<u>Deferred tax</u>		
Effect of change in tax rate	\$ -	\$ 3
In respect of the current year		
Translation of foreign operations	<u>88</u>	<u>54</u>
Income tax recognized in other comprehensive income	<u>\$ 88</u>	<u>\$ 57</u>

c. Current tax assets and liabilities

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Current tax assets</u>		
Prepaid Mainland China income tax	<u>\$ 28,005</u>	<u>\$ 6,818</u>
<u>Current tax liabilities</u>		
Income tax payable	<u>\$ 23,607</u>	<u>\$ 19,414</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities are set out as follows:

Year ended December 31, 2019

	<u>Opening Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Closing Balance</u>
<u>Deferred Tax Assets</u>				
<u>Temporary differences</u>				
Amortization of Intangibles	\$ 1,601	(\$ 119)	\$ -	\$ 1,482
Payables for annual leave	802	117	-	919
Investment income under equity method	792	(237)	-	555
Exchange differences on translation of foreign operations	52	-	23	75
Allowance for impairment loss	2,869	(1,281)	-	1,588
Unrealized exchange losses	<u>-</u>	<u>3,222</u>	<u>-</u>	<u>3,222</u>
	<u>\$ 6,116</u>	<u>\$ 1,702</u>	<u>\$ 23</u>	<u>\$ 7,841</u>
<u>Deferred Tax Liabilities</u>				
<u>Temporary differences</u>				
Exchange differences on translation of foreign operations	\$ 125	\$ -	(\$ 65)	\$ 60
Unrealized exchange gains	<u>58</u>	<u>(58)</u>	<u>-</u>	<u>-</u>
	<u>\$ 183</u>	<u>(\$ 58)</u>	<u>(\$ 65)</u>	<u>\$ 60</u>

Year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred Tax Assets</u>				
Temporary differences				
Amortization of Intangibles	\$ 1,463	\$ 138	\$ -	\$ 1,601
Payables for annual leave	552	250	-	802
Investment income under equity method	1,341	(549)	-	792
Amortization of employee benefit	4	(4)	-	-
Exchange differences on translation of foreign operations	35	-	17	52
Allowance for impairment loss	489	2,380	-	2,869
Unrealized exchange losses	<u>2,939</u>	<u>(2,939)</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,823</u>	<u>(\$ 724)</u>	<u>\$ 17</u>	<u>\$ 6,116</u>
<u>Deferred Tax Liabilities</u>				
Temporary differences				
Exchange differences on translation of foreign operations	\$ 51	\$ -	\$ 74	\$ 125
Unrealized exchange gains	<u>-</u>	<u>58</u>	<u>-</u>	<u>58</u>
	<u>\$ 51</u>	<u>\$ 58</u>	<u>\$ 74</u>	<u>\$ 183</u>

e. Income tax assessments

The tax authorities have examined income tax returns of the Company through 2017.

The Company has no pending tax litigation as of December 31, 2019.

24. EARNINGS PER SHARE

	Unit: NT\$ Per Share	
	Year Ended December 31, 2019	Year Ended December 31, 2018
Basic earnings per share		
From continuing operations	<u>\$ 9.90</u>	<u>\$ 9.77</u>
Diluted earnings per share		
From continuing operations	<u>\$ 9.89</u>	<u>\$ 9.77</u>

The earnings 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 Year

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net Profit for the Year	<u>\$ 308,565</u>	<u>\$ 279,907</u>
Earnings used in the computation of basic earnings per share	<u>\$ 308,565</u>	<u>\$ 279,907</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 308,565</u>	<u>\$ 279,907</u>

The weighted average number of ordinary shares outstanding (in thousands of shares) is set out as follows:

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Weighted average number of ordinary shares used in the computation of basic earnings per share	31,171	28,640
Effect of potentially dilutive ordinary shares :		
Employees' compensation	<u>15</u>	<u>19</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u><u>31,186</u></u>	<u><u>28,659</u></u>

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

25. SHARE-BASED PAYMENT ARRANGEMENTS

The Company conducts a cash capital increase reserved for employee stocks of 139 thousand shares in January, 2019. The stocks granted were priced using the Black-Scholes pricing model, and the inputs to the model are set out as follows:

	<u>January, 2019</u>
Grant-date share price (NT\$)	\$ 194.85
Exercise price (NT\$)	\$ 198
Expected volatility	60.16%
Expected life (in years)	0.02 years
Risk-free interest rate	0.43%

Compensation costs recognized were \$826 thousand.

26. CASH FLOW INFORMATION

a. Non-cash transactions

For the years ended December 31, 2019 and 2018, the Company entered into the following non-cash investing activities:

On December 31, 2019 and 2018, the company respectively acquired property, plant and equipment of \$3,700 thousand and \$6,721 thousand, which are recognized as payables on equipment (refer to Note 18).

b. Changes in liabilities arising from financing activities

2019

	<u>January 1, 2019</u>	<u>Cash Flow</u>	<u>December 31, 2019</u>
Short-term loans	\$ 40,000	(\$40,000)	\$ -
Lease liabilities (Note 3)	<u>17,116</u>	<u>(7,531)</u>	<u>9,585</u>
	<u>\$ 57,116</u>	<u>(\$47,531)</u>	<u>\$ 9,585</u>

2018

	<u>January 1, 2018</u>	<u>Cash Flow</u>	<u>December 31, 2018</u>
Short-term loans	<u>\$ 60,000</u>	<u>(\$20,000)</u>	<u>\$ 40,000</u>

27. CAPITAL MANAGEMENT

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

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

The Company 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 Company may adjust the amount of dividends paid to shareholders and the number of new shares issued.

28. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy

December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Beneficiary certificate of funds	<u>\$ 504,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 504,867</u>
Financial assets at FVTOCI				
Investments in equity instruments				
– Unlisted shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,350</u>	<u>\$ 9,350</u>

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Beneficiary certificate of funds	<u>\$ 50,031</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,031</u>
Financial assets at FVTOCI				
Investments in equity instruments				
– Unlisted shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,260</u>	<u>\$ 8,260</u>

There were no transfers between Levels 1 and 2 in 2019 and 2018.

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

Year Ended December 31, 2019

<u>Financial Assets</u>	<u>Financial Assets at FVTOCI Equity Instruments</u>
Balance at January 1	\$ 8,260
Recognized in other comprehensive income (included in unrealized valuation (loss) gain on financial assets at FVTOCI)	(10)
Purchases	<u>1,100</u>
Balance at December 31	<u>\$ 9,350</u>

Year Ended December 31, 2018

<u>Financial Assets</u>	<u>Financial Assets at FVTOCI Equity Instruments</u>
Balance at January 1	\$ 7,800
Recognized in other comprehensive income (included in unrealized valuation gain (loss) on financial assets at FVTOCI)	2,460
Disposal	(2,000)
Balance at December 31	<u>\$ 8,260</u>

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

The fair values of non-publicly traded equity investments are mainly determined by using the market approach. Market approach assumes that a company's value is highly related to similar companies in the industry, therefore values a company at reasonable market price through a comparison to similar companies, usually by multiplying the similar companies' Price-Earnings Ratio by the evaluated company's Earnings Per Share, carrying value per share, or operating revenue.

c. Categories of financial instruments

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
<u>FVTPL</u>		
Mandatorily classified as at FVTPL	\$ 504,867	\$ 50,031
Financial asset at amortized cost (1)	837,031	698,301
<u>FVTOCI</u>		
Investment in equity instrument	9,350	8,260
<u>Financial liabilities</u>		
Amortized cost (2)	13,493	57,254

(1) The balances include cash and cash equivalents, financial assets at amortized cost-current, accounts receivable, account receivables-related parties, other receivables, other financial assets-current, and refundable deposits (recognized in other current assets and other non-current assets).

(2) The balances included financial liabilities at amortized cost, short-term loans, accounts payable and other payables (not including payables for salaries or bonuses, payables for insurance, payable for annual leave, payables for retirement benefit, payable for tax expense), and other payables-related parties.

d. Financial risk management objectives and policies

The Company's major financial instruments included other financial instrument, equity investments, accounts receivable, accounts payable, borrowings, and lease liabilities. The Company'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 Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below), interest rates (see (b) below), and other price risks (see (c) below).

a) Foreign currency risk

The Company have foreign currency denominated service transactions, which expose the Company to foreign currency risk.

The carrying amounts of the Company's non-functional currency denominated monetary assets and monetary liabilities are set out in Note 32.

Sensitivity analysis

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

The following table details the Company's sensitivity to a 1% increase/decrease in the New Taiwan dollar (NTD, the functional currency) against 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 NTD weakening 1% against USD. For a 1% strengthening of NTD against USD, there would be an equal and opposite impact on pre-tax profit, and the balances below would be negative.

	USD Impact	
	Year Ended December 31, 2019	Year Ended December 31, 2018
Profit or loss	\$ 7,786	\$ 6,675

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

The Company's sensitivity to USD increased during the current year mainly due to the increase in USD denominated bank deposits.

b) Interest rate risk

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

	December 31, 2019	December 31, 2018
Fair value interest rate risk		
– Financial assets	\$ 497,625	\$ 237,362
– Financial liability	9,585	40,000
Cash flow interest rate risk		
– Financial assets	147,469	222,234

Sensitivity analysis

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

If interest rates had been 100 basis points increase / decrease and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2019 and 2018 would increase / decrease by \$1,475 thousand and \$2,222 thousand, respectively, mainly resulting from the Company's variable-rate bank deposits.

The Company's sensitivity to interest rates decreased during the current year mainly due to the decrease in variable-rate bank deposits.

c) Other price risk

The Company was exposed to equity price risk 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 years ended December 31, 2019 and 2018 would have increased/decreased by \$5,049 thousand and \$500 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2019 and 2018 would have increased/decreased by \$94 thousand and \$83 thousand, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

The Company's sensitivity to equity price risks increased because the Company's investments in equity securities has increased.

2) Credit risk

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

The Company adopted a policy of only dealing with creditworthy counterparties.

To reduce credit risks, the Company's management shall assign special personnel 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 Company shall review the recovery of each receivable on each balance sheet date to ensure that adequate allowances are made for unrecoverable receivables. Therefore, the Company's management believes that the Company's credit risk has been greatly reduced.

The Company has an increase in customers in 2019 and 2018 due to an expansion of overseas market. Therefore, the company did not have significant credit risk exposure to any single counterparty or any groups of counterparties having similar characteristics.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, the Company had available unutilized bank loan facilities set out in (b) below.

a) 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 Company 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.

December 31, 2019

	<u>Less than 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
<u>non-derivative financial liabilities</u>				
Non-interest bearing	\$ 13,493	\$ -	\$ -	\$ -
Lease liabilities	<u>1,935</u>	<u>5,805</u>	<u>1,934</u>	<u>-</u>
	<u>\$ 15,428</u>	<u>\$ 5,805</u>	<u>\$ 1,934</u>	<u>\$ -</u>

Additional information about the maturity analysis for lease liabilities:

	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>5-10 Years</u>	<u>10-15 Years</u>	<u>15-20 Years</u>	<u>20+ Years</u>
Lease liabilities	<u>\$7,740</u>	<u>\$1,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2018

	<u>Less than 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
<u>non-derivative financial liabilities</u>				
Non-interest bearing	\$ 17,254	\$ -	\$ -	\$ -
Fixed interest rate instrument	<u>-</u>	<u>40,640</u>	<u>-</u>	<u>-</u>
	<u>\$ 17,254</u>	<u>\$ 40,640</u>	<u>\$ -</u>	<u>\$ -</u>

b) Financing facilities

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Secured bank loan facilities:		
– Amount used	\$ -	\$ 40,000
– Amount unused	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 40,000</u>

29. TRANSACTIONS WITH RELATED PARTIES

The transactions between the Company and its related parties, other than those disclosed in other notes, are summarized as follows:

a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
M31 Technology USA, INC.	Subsidiaries
M31 Technology (shanghai) Inc.	Subsidiaries

b. Operating revenue

<u>Line Items</u>	<u>Related Party Category</u>	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Service revenue	Subsidiaries	<u>\$ 34,910</u>	<u>\$ 60,190</u>

The rendering of services to related parties shall be charged at market price with mutual agreement of both parties within 90 days. For the years ended December 31, 2019 and 2018, the rendering of service are charged based on contracts within 30 to 90 days after the satisfaction of contractual obligations.

c. Receivables from related parties (excluding loans to related parties)

<u>Line Items</u>	<u>Related Party Category</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts receivable	Subsidiaries	<u>\$ 4,272</u>	<u>\$ 17,170</u>

The outstanding receivables from related parties are unsecured. For the years ended December 31, 2019 and 2018, no impairment loss was recognized for receivables from related parties.

d. Payables to related parties (excluding loans from related parties)

<u>Line Items</u>	<u>Related Party Category</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other payables	Subsidiaries	<u>\$ 1,276</u>	<u>\$ 1,259</u>

The outstanding accounts payables to related parties are unsecured.

e. Other transactions with related parties

<u>Line Items</u>	<u>Related Party Category</u>	<u>Service Category</u>	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Operating expense	Subsidiaries	Service Rendering	<u>\$ 24,140</u>	<u>\$ 22,675</u>

The Company commissions the subsidiary to render customers services on its behalf. The contract-based prices are determined respectively and payment terms is net 30 days from the end of the transaction month.

f. Compensation of key management personnel

	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Short-term employee benefits	<u>\$ 23,485</u>	<u>\$ 19,744</u>
Post-employment benefits	<u>423</u>	<u>324</u>
	<u>\$ 23,908</u>	<u>\$ 20,068</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.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Pledged time deposits (classified as other financial assets – current)	<u>\$ -</u>	<u>\$ 55,287</u>

31. SIGNIFICANT AND UNRECOGNIZED COMMITMENTS

As of December 31, 2018, the Company has committed a prepayment for business facilities amounted to \$4,816 thousand.

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2019

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 26,106	29.98 (USD: NTD)	\$ 782,658
<u>Non-monetary items</u>			
Subsidiaries accounted for using the equity method			
USD	535	29.98 (USD: NTD)	16,037
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	137	29.98 (USD: NTD)	4,107

December 31, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 21,784	30.715 (USD: NTD)	\$ 669,096
<u>Non-monetary items</u>			
Subsidiaries accounted for using the equity method			
USD	498	30.715 (USD: NTD)	15,296
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	53	30.715 (USD: NTD)	1,628

The significant unrealized foreign exchange gains (losses) are set out as follows:

Foreign Currency	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
USD	30.912 (USD:NTD)	(\$ 16,584)	30.149 (USD:NTD)	\$ 15,333

33. SEPARATELY DISCLOSED ITEMS

- a. Significant transactions and b. 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: None.
 - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None.
 - 7) Total purchases from or sales to related parties 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) Information on investees: Table 3.
- c. Information on investments in mainland China
- 1) The name of the investee company in mainland China, 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 year, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 4.
 - 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 4.
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the year.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes.
 - e) The highest balance, the ending balance, the interest rate range, and total current period interest with respect to the financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services.

M31 TECHNOLOGY CORPORATION

MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

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

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2019				Note
				Number of Shares / Units	Carrying Amount	Percentage of Ownership (%)	Fair Value	
M31 Technology Corporation	Shares ISTART-TEK INC.	—	Financial assets at fair value through other comprehensive income - non-current	550	\$ 9,350	3.21%	\$ 9,350	—
M31 Technology Corporation	Fund beneficiary certificate Yuanta De-Li Money Market Fund	—	Financial assets at fair value through profit or loss - current	1,537	25,164	-	25,164	—
	Taishin 1699 Money Market Fund	—	Financial assets at fair value through profit or loss - current	1,851	25,146	-	25,146	—
	FSITC Money Market Fund	—	Financial assets at fair value through profit or loss - current	1,237	221,531	-	221,531	—
	Hua Nan Phoenix Money Market Fund	—	Financial assets at fair value through profit or loss - current	11,189	182,597	-	182,597	—
	SinoPac Money Market Fund	—	Financial assets at fair value through profit or loss - current	3,609	50,429	-	50,429	—

Note 1: For relevant information on investment in subsidiaries, please refer to Table 3 and Table 4.

M31 TECHNOLOGY CORPORATION

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 YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Thousands of Units , Unless Stated Otherwise)

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)
M31 Technology Corporation	Fund beneficiary certificate											
	FSITC Money Market Fund	Financial assets at fair value through profit or loss - current	-	\$ -	1,963	\$ 350,000	726	\$ 130,004	\$ 129,510	\$ 494	1,237	\$ 221,531
	Hua Nan Phoenix Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	11,189	182,000	-	-	-	-	11,189	182,597
	SinoPac Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	17,953	250,000	14,344	200,000	199,731	269	3,609	50,429

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

M31 TECHNOLOGY CORPORATION

INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Thousands of Shares, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Principal Business Activities	Original Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2019	December 31, 2018	Number of Shares	%	Carrying Amount			
M31 Technology Corporation	M31 Technology USA, INC.	USA	Product marketing and technical service	\$ 13,531	\$ 13,531	450	100	\$ 12,976	\$ 1,340	\$ 1,340	Subsidiaries. accounted by USD
M31 Technology Corporation	Sirius Venture Ltd.	Republic of Seychelles	Investment Holdings	5,364	5,364	167	100	3,061	(157)	(157)	Subsidiaries. accounted by USD

Note: For relevant information on investee companies in mainland China, please refer to Table 4.

M31 TECHNOLOGY CORPORATION

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars or United state 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, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2 and Note 3)	Carrying Amount as of December 31, 2019 (Note 2 and Note 3)	Accumulated Repatriation of Investment Income as of December 31, 2019	Note
					Outward	Inward							
M31 Technology (shanghai) Inc.	Product marketing and technical service	USD 100	(2)	\$ 3,340	\$ -	\$ -	\$ 3,340	(\$ 130)	100	(\$ 130)	\$ 2,862	\$ -	—

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

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2019	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	\$864,941

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 December 31, 2019:

Sirius Venture Ltd had recognized the Investment Gain (Loss) on the investment in the Investee Company M31 Technology (shanghai) Inc. for the year ended December 31, 2019 and the Carrying Value as of December 31, 2019.

Note 3: Calculated based on the audited annual financial report of the parent company in Taiwan.

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 year: None.
- (2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year: 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 year 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 year or on the financial position, such as the rendering or receipt of services:

Name of the Related Parties	Relationship with the Company	Transaction Type	Amount	Transaction Details			Notes/accounts receivable (payable)		Unrealized Gain (Loss)
				Unit Price	Payment Term	Comparison with Normal Transactions	Balance	Percentage (%)	
M31 Technology (shanghai) Inc.	Sub-subsidiary	Service rendering expenses	\$ 3,337	Contract-based	Net 30 days from the end of the transaction month	No significant differences	\$ -	-	\$ -

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STATEMENT 1

M31 TECHNOLOGY CORPORATION

STATEMENT OF CASH AND CASH EQUIVALENTS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars or Foreign Currency)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Cash		
Cash on hand		\$ 70
Cash in banks		
Current accounts	NTD account	33,921
	Foreign currency account (USD3,777 thousand @29.980; RMB75 thousand @4.305)	113,548
Cash equivalents		
Foreign currency time deposit	Expired by 109.1.1~109.3.4, interest rate of 1.460%~2.330% (USD14,100 thousand @29.980; RMB220 thousand @4.305)	<u>423,665</u>
		<u>\$ 571,204</u>

M31 TECHNOLOGY CORPORATION

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT
 DECEMBER 31, 2019
 (In Thousands of New Taiwan Dollars, Thousands of Units)

Financial Instrument	Description	Units	Carrying Amount	FAIR VALUE	
				Unit Price (dollars)	Total Price
Fund beneficiary certificates	Yuanta De-Li Money Market Fund	1,537	\$ 25,164	16.3699	\$ 25,164
Fund beneficiary certificates	Taishin 1699 Money Market Fund	1,851	25,146	13.5842	25,146
Fund beneficiary certificates	FSITC Money Market Fund	1,237	221,531	179.1000	221,531
Fund beneficiary certificates	Hua Nan Phoenix Money Market Fund	11,189	182,597	16.3191	182,597
Fund beneficiary certificates	SinoPac Money Market Fund	3,609	50,429	13.9742	50,429
			<u>\$ 504,867</u>		<u>\$ 504,867</u>

STATEMENT 3

M31 TECHNOLOGY CORPORATION

**STATEMENT OF FINANCIAL ASSETS AT AMORTIZED COST – CURRENT
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars or Foreign Currency)**

<u>Item</u>	<u>Description</u>	<u>Amount</u>
NTD Time Deposit	Expired by 109.6.5~109.7.16, interest rate of 1.035%~1.045%	\$ 14,000
FCY Time Deposit	Expired by 109.6.17, interest rate of 2.300% (USD2,100 thousand @29.980)	<u>59,960</u>
		<u>\$ 73,960</u>

STATEMENT 4

M31 TECHNOLOGY CORPORATION

STATEMENT OF ACCOUNTS RECEIVABLE

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

<u>Client Name</u>	<u>Description</u>	<u>Amount</u>
Non-related parties		
Client A	Technical Service Revenue	\$ 30,580
Client B	Technical Service Revenue	20,693
Client C	Technical Service Revenue	14,082
Client D	Technical Service Revenue	13,990
Client E	Technical Service Revenue	9,474
Others (Note)		<u>93,283</u>
		182,102
Allowance for impairment loss		(<u>2,820</u>)
		<u>\$ 179,282</u>
Related parties:		
M31 Technology USA, INC.	Technical Service Revenue	<u>\$ 4,272</u>

Note: The amount of individual client in others does not exceed 5% of the account balance.

STATEMENT 5

M31 TECHNOLOGY CORPORATION

**STATEMENT OF OTHER ACCOUNTS RECEIVABLE
DECEMBER 31, 2019**

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Earned revenue receivable	Estimated interest for December, 2019	<u>\$ 482</u>

M31 TECHNOLOGY CORPORATION

STATEMENT OF PREPAYMENTS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Prepayment		
Software service expense		\$ 12,644
Maintenance expense		1,361
Rent expense		986
Tendering expense		899
Others (Note)		<u>1,253</u>
		<u>\$ 17,143</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

M31 TECHNOLOGY CORPORATION

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – NON-CURRENT
 FOR THE YEAR ENDED DECEMBER 31, 2019
 (In Thousands of New Taiwan Dollars, Thousands of Shares)

Name	Balance, January 1, 2019		Increase		Decrease		Balance, December 31, 2019	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
ISTART-TEK INC. (Note)	500	\$ 8,260	50	\$ 1,100	-	\$ 10	550	\$ 9,350

Note: Hoy technologies has changed its registered name to iSTART-TEK Technologies Corporation in January, 2019.

M31 TECHNOLOGY CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
 FOR THE YEAR ENDED DECEMBER 31, 2019
 (In Thousands of New Taiwan Dollars, Thousands of Shares)

Investees	Balance, January 1, 2019		Increase		Decrease		Balance, December 31, 2019			Market Value or Net Assets Value (Note 1)		Collateral or Pledge Status
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	%	Amount	Unit Price (NTD/Share)	Total	
M31 Technology USA, INC. (Note 2)	450	\$ 11,963	-	\$ 1,340	-	(\$ 327)	450	-	\$ 12,976	28.84	\$ 12,976	None
Sirius Venture Ltd.(Note 3)	167	3,333	-	-	-	(272)	167	-	3,061	18.33	3,061	None
		<u>\$ 15,296</u>		<u>\$ 1,340</u>		<u>(\$ 599)</u>			<u>\$ 16,037</u>		<u>\$ 16,037</u>	

Note 1: The net value per share is estimated based on the Investees' net value audited by accountants on December 31, 2019.

Note 2: The increase during the year is \$1,340 thousand recognized as the share of profit (loss) of subsidiaries accounted for using equity method; the decrease during the year is \$327 thousand recognized as the exchange difference on translating the financial statements of foreign operations.

Note 3: The decrease during the year are \$157 thousand recognized as the share of profit (loss) of subsidiaries accounted for using equity method, and \$115 thousand recognized as the exchange difference on translating the financial statement of foreign operations.

M31 TECHNOLOGY CORPORATION

**STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Beginning Balance (Note)	Increase	Decrease	Ending Balance	Note
Buildings	<u>\$ 17,116</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,116</u>	

Note: The adjusted amount on January 1, 2019 due to the initial application of IFRS 16 in 2019. Please refer to Note 3.

M31 TECHNOLOGY CORPORATION

**STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF RIGHT-OF-USE
ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Beginning Balance	Increase	Decrease	Ending Balance	Note
Buildings	<u>\$ -</u>	<u>\$ 7,607</u>	<u>\$ -</u>	<u>\$ 7,607</u>	

M31 TECHNOLOGY CORPORATION

**STATEMENT OF CONTRACT LIABILITIES - CURRENT
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

<u>Client Name</u>	<u>Description</u>	<u>Amount</u>
Non-related parties:		
Company A	Technical service revenue	\$ 27,528
Others (Note)		<u>3</u>
		<u>\$ 27,531</u>

Note: The amount of individual client in others does not exceed 5% of the account balance.

M31 TECHNOLOGY CORPORATION

STATEMENT OF ACCOUNTS PAYABLES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

<u>Vendor Name</u>	<u>Description</u>	<u>Amount</u>
Non-related parties:		
Company A	Technical service expense	\$ 470
Company B	Testing expense	306
Company C	Testing expense	269
Company D	Technical service expense	241
Company E	Testing expense	196
Company F	Testing expense	139
Company G	Testing expense	130
Others (Note)		<u>328</u>
		<u>\$ 2,079</u>

Note: The amount of individual client in others does not exceed 5% of the account balance.

M31 TECHNOLOGY CORPORATION

**STATEMENT OF OTHER CURRENT LIABILITIES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Description	Amount
Receipts under custody		
Tax withholding		\$ 3,815
Health insurance		826
Labor pension		647
Labor insurance		<u>326</u>
		<u>\$ 5,614</u>

M31 TECHNOLOGY CORPORATION

STATEMENT OF LEASE LIABILITIES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Item	Description	Lease Term	Discount Rate	Ending Balance	Note
Buildings	Office	108.04.01~110.03.31	1.6%	\$ 5,162	Note 1
	Office	108.04.01~110.03.31	1.6%	1,734	Note 1
	Office	108.11.01~110.03.31	1.6%	<u>2,689</u>	Note 1
				<u>\$ 9,585</u>	

Note1: The amount classified as lease liability- current and lease liability- non-current are \$7,652 thousand and \$1,933 thousand, respectively.

M31 TECHNOLOGY CORPORATION

**STATEMENT OF NET REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Description	Amount
Service revenue		
	Technical service revenue	\$ 785,968
	Royalty revenue	<u>81,436</u>
		<u>\$ 867,404</u>

M31 TECHNOLOGY CORPORATION

STATEMENT OF OPERATING EXPENSES
 FOR THE YEARS ENDED DECEMBER 31, 2019
 (In Thousands of New Taiwan Dollars)

Item	Selling and Marketing Expense	General and Administrative Expense	Research and Development Expense
Payroll and related expense (includes pension)	\$ 9,198	\$ 43,286	\$ 244,081
Depreciation	-	14,011	21,089
Software expense	-	533	51,002
Technical service expense	25,803	-	-
Professional service expense	-	10,634	13,183
Advertising expense	4,188	50	-
Commission	3,777	-	-
Travel expenses	3,109	1,589	938
Others (Note)	<u>1,701</u>	<u>26,432</u>	<u>34,599</u>
	<u>\$ 47,776</u>	<u>\$ 96,535</u>	<u>\$ 364,892</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

M31 TECHNOLOGY CORPORATION

**SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES
BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Classified as Cost of Revenue	Classified as Operating Expenses	Total	Classified as Cost of Revenue	Classified as Operating Expenses	Total
Employee benefits expense						
Payroll and related expense	\$ -	\$ 281,914	\$ 281,914	\$ -	\$ 245,298	\$ 245,298
Labor and health Insurance	-	16,541	16,541	-	14,385	14,385
Pension	-	10,475	10,475	-	9,380	9,380
Remuneration of directors	-	4,176	4,176	-	4,134	4,134
Others	-	5,964	5,964	-	5,414	5,414
	<u>\$ -</u>	<u>\$ 319,070</u>	<u>\$ 319,070</u>	<u>\$ -</u>	<u>\$ 278,611</u>	<u>\$ 278,611</u>
Depreciation	<u>\$ -</u>	<u>\$ 35,100</u>	<u>\$ 35,100</u>	<u>\$ -</u>	<u>\$ 21,778</u>	<u>\$ 21,778</u>
Amortization	<u>\$ -</u>	<u>\$ 2,691</u>	<u>\$ 2,691</u>	<u>\$ -</u>	<u>\$ 2,583</u>	<u>\$ 2,583</u>

1. For the years ended December 31, 2019 and 2018, the Company has 165 and 149 employees, respectively, both including 5 directors who does not serve currently as employees.
2. For the years ended December 31, 2019 and 2018, the average employee benefits expenses were \$1,968 thousand and \$1,906 thousand, respectively. (“The total employee benefits expense this year – the total remuneration of directors”/“the number of employees this year – the number of directors who does not serve currently as employees”).
3. For the years ended December 31, 2019 and 2018, the average payroll and related expense were \$1,762 thousand and \$1,703 thousand, respectively. (“The total payroll and related expense this year”/“the number of employees this year – the number of directors who does not serve currently as employees”).
4. The average payroll expense has been adjusted by 3.46% (“the average payroll expense this year – the average payroll expense of the previous year”/the average payroll expense of the previous year).