

M31 Technology Corporation and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2020 and 2019
and Independent Auditors' Review Report**

DELOITTE

Independent Auditors' Review Report

The Board of Directors and Shareholders
M31 Technology Corporation

Introductions

We have reviewed the accompanying consolidated balance sheets of M31 Technology Corporation and its subsidiaries (collectively referred to as the "Group") as of September 30, 2020 and 2019, the consolidated statements of comprehensive income for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the consolidated statements of changes in equity and the consolidated statements of cash flows for the nine months ended September 30, 2020 and 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects the consolidated financial position of the Group as of September 30, 2020 and 2019, its consolidated financial performance for the three months ended September 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 3, 2020

Notice to Readers

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

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2020, DECEMBER 31, 2019, AND SEPTEMBER 30, 2019

(In Thousands of New Taiwan Dollars)

ASSETS	SEPTEMBER 30, 2020 (Reviewed)		DECEMBER 31, 2019 (Audited)		SEPTEMBER 30, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 435,301	28	\$ 589,555	37	\$ 414,937	28
Financial assets at fair value through profit or loss – current (Note 7)	209,330	13	504,867	31	564,153	38
Financial assets at amortized cost – current (Note 9)	436,500	28	73,960	5	76,080	5
Accounts receivable (Notes 10 and 20)	192,614	12	179,282	11	161,551	11
Other receivables	5	-	482	-	105	-
Current tax assets (Note 4)	39,963	3	28,005	2	27,527	2
Prepayments (Note 15)	30,228	2	17,550	1	23,021	2
Other current assets (Note 15)	2,445	-	1,868	-	2,010	-
Total current assets	<u>1,346,386</u>	<u>86</u>	<u>1,395,569</u>	<u>87</u>	<u>1,269,384</u>	<u>86</u>
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income – non-current (Note 8)	18,000	1	9,350	1	9,350	1
Property, plant and equipment (Note 12)	182,838	12	168,976	11	172,219	12
Right-of-use Assets (Note 13)	6,429	-	9,509	1	11,410	1
Intangible assets (Note 14)	5,726	-	2,347	-	2,567	-
Deferred income tax assets (Note 4)	9,201	1	7,841	-	5,088	-
Other non-current assets (Note 15)	5,446	-	6,123	-	6,020	-
Total non-current assets	<u>227,640</u>	<u>14</u>	<u>204,146</u>	<u>13</u>	<u>206,654</u>	<u>14</u>
TOTAL	<u>\$ 1,574,026</u>	<u>100</u>	<u>\$ 1,599,715</u>	<u>100</u>	<u>\$ 1,476,038</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Contract liabilities – current (Note 20)	\$ 73,828	5	\$ 27,531	2	\$ 33,671	2
Accounts payable (Note 16)	903	-	2,079	-	2,435	-
Other payables (Note 17)	96,279	6	89,670	6	66,504	5
Current tax liabilities (Note 4)	10,843	1	23,607	1	7,459	-
Lease liabilities – current (Note 13)	5,010	-	7,652	1	7,622	1
Other current liabilities (Note 17)	2,958	-	5,614	-	2,747	-
Total current liabilities	<u>189,821</u>	<u>12</u>	<u>156,153</u>	<u>10</u>	<u>120,438</u>	<u>8</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities (Note 4)	-	-	60	-	605	-
Lease liabilities – non-current (Note 13)	1,412	-	1,933	-	3,857	-
Total non-current liabilities	<u>1,412</u>	<u>-</u>	<u>1,993</u>	<u>-</u>	<u>4,462</u>	<u>-</u>
Total liabilities	<u>191,233</u>	<u>12</u>	<u>158,146</u>	<u>10</u>	<u>124,900</u>	<u>8</u>
EQUITY (Note 19)						
Share capital						
Ordinary shares	<u>313,180</u>	<u>20</u>	<u>313,180</u>	<u>19</u>	<u>313,180</u>	<u>21</u>
Capital surplus	<u>634,551</u>	<u>40</u>	<u>634,551</u>	<u>40</u>	<u>634,282</u>	<u>43</u>
Retained earnings						
Legal reserve	92,583	6	61,727	4	61,727	4
Unappropriated earnings	<u>377,389</u>	<u>24</u>	<u>428,928</u>	<u>27</u>	<u>338,368</u>	<u>23</u>
Total retained earnings	<u>469,972</u>	<u>30</u>	<u>490,655</u>	<u>31</u>	<u>400,095</u>	<u>27</u>
Other equity	<u>13,154</u>	<u>1</u>	<u>3,183</u>	<u>-</u>	<u>3,581</u>	<u>1</u>
Treasury shares	(<u>48,064</u>)	(<u>3</u>)	-	-	-	-
Total equity	<u>1,382,793</u>	<u>88</u>	<u>1,441,569</u>	<u>90</u>	<u>1,351,138</u>	<u>92</u>
TOTAL	<u>\$ 1,574,026</u>	<u>100</u>	<u>\$ 1,599,715</u>	<u>100</u>	<u>\$ 1,476,038</u>	<u>100</u>

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS AND THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019		Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Note 20)	\$ 270,652	100	\$ 269,558	100	\$ 676,416	100	\$ 620,703	100
GROSS PROFIT	270,652	100	269,558	100	676,416	100	620,703	100
OPERATING EXPENSES (Notes 14, 21, and 28)								
Sales and Marketing expenses	(13,083)	(5)	(11,058)	(4)	(40,399)	(6)	(38,368)	(6)
General and administrative expenses	(18,317)	(7)	(29,077)	(11)	(65,884)	(10)	(74,390)	(12)
Research and development expenses	(126,320)	(46)	(96,485)	(36)	(309,469)	(46)	(262,972)	(43)
Expected credit gain (loss) (Note 10)	-	-	1,795	1	(508)	-	4,744	1
Total operating expenses`	(157,720)	(58)	(134,825)	(50)	(416,260)	(62)	(370,986)	(60)
OPERATING INCOME	112,932	42	134,733	50	260,156	38	249,717	40
NON-OPERATING INCOME AND EXPENSES (Note 21)								
Interest income	1,221	-	878	-	5,958	1	3,951	1
Other income	2	-	3	-	322	-	355	-
Other gains and losses	(19,150)	(7)	(7)	-	(28,270)	(4)	6,875	1
Finance costs	(29)	-	(48)	-	(113)	-	(301)	-
Total non-operating income and expenses	(17,956)	(7)	826	-	(22,103)	(3)	10,880	2
PROFIT BEFORE INCOME TAX	94,976	35	135,559	50	238,053	35	260,597	42
INCOME TAX EXPENSES (Notes 4 and 22)	(13,089)	(5)	(19,033)	(7)	(32,240)	(5)	(42,592)	(7)
NET PROFIT FOR THE PERIOD	81,887	30	116,526	43	205,813	30	218,005	35
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	18,703	7	-	-	18,703	3	(10)	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating the financial statements of foreign operations (Note 19)	(208)	-	(119)	-	(429)	-	55	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4, 21, and 22)	42	-	24	-	86	-	(11)	-
	(166)	-	(95)	-	(343)	-	44	-
Other comprehensive income (loss) for the period, net of income tax	18,537	7	(95)	-	18,360	3	34	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	\$ 100,424	37	\$ 116,431	43	\$ 224,173	33	\$ 218,039	35
EARNINGS PER SHARE (Note 23)								
Basic	\$ 2.63		\$ 3.72		\$ 6.60		\$ 7.00	
Diluted	\$ 2.63		\$ 3.72		\$ 6.60		\$ 7.00	

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Share Capital		Capital Surplus	Retained Earnings		Other Equity		Amount of Treasury Shares	Total Equity
	Shares (In Thousands)	Amount		Legal Reserve	Unappropriated Earnings	Exchange Difference On Translating the Financial Statements of Foreign Operations	Unrealized Valuation Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income		
BALANCE AT JANUARY 1, 2019	28,640	\$ 286,400	\$ 53,851	\$ 33,736	\$ 367,580	\$ 287	\$ 3,260	\$ -	\$ 745,114
Appropriations of 2018 earnings									
Legal capital reserve	-	-	-	27,991	(27,991)	-	-	-	-
Cash dividends to shareholders	-	-	-	-	(219,226)	-	-	-	(219,226)
Net profit for the nine months ended September 30, 2019	-	-	-	-	218,005	-	-	-	218,005
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax (Note 19)	-	-	-	-	-	44	(10)	-	34
Total comprehensive income (loss) for the nine months ended September 30, 2019.	-	-	-	-	218,005	44	(10)	-	218,039
Proceeds from issuance of ordinary shares (Note 19)	2,678	26,780	578,692	-	-	-	-	-	605,472
Share-based payment (Notes 19 and 24)	-	-	826	-	-	-	-	-	826
Other changes in capital surplus (Note 19)	-	-	913	-	-	-	-	-	913
BALANCE AT SEPTEMBER 30, 2019	<u>31,318</u>	<u>\$ 313,180</u>	<u>\$ 634,282</u>	<u>\$ 61,727</u>	<u>\$ 338,368</u>	<u>\$ 331</u>	<u>\$ 3,250</u>	<u>\$ -</u>	<u>\$ 1,351,138</u>
BALANCE AT JANUARY 1, 2020	31,318	\$ 313,180	\$ 634,551	\$ 61,727	\$ 428,928	(\$ 67)	\$ 3,250	\$ -	\$ 1,441,569
Appropriations of 2019 earnings									
Legal capital reserve	-	-	-	30,856	(30,856)	-	-	-	-
Cash dividends to shareholders	-	-	-	-	(234,885)	-	-	-	(234,885)
Net profit for the nine months ended September 30, 2020	-	-	-	-	205,813	-	-	-	205,813
Other comprehensive income (loss) for the nine months ended September 30, 2020, net of income tax (Note 19)	-	-	-	-	-	(343)	18,703	-	18,360
Total comprehensive income (loss) for the nine months ended September 30, 2020.	-	-	-	-	205,813	(343)	18,703	-	224,173
Purchase of treasury shares (Note 19)	-	-	-	-	-	-	-	(48,064)	(48,064)
Disposal of investments in equity instruments designated as at fair value through other comprehensive income (NOTES 8 and 19)	-	-	-	-	8,389	-	(8,389)	-	-
BALANCE AT SEPTEMBER 30, 2020	<u>31,318</u>	<u>\$ 313,180</u>	<u>\$ 634,551</u>	<u>\$ 92,583</u>	<u>\$ 377,389</u>	<u>(\$ 410)</u>	<u>\$ 13,564</u>	<u>(\$ 48,064)</u>	<u>\$ 1,382,793</u>

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 238,053	\$ 260,597
Adjustments for:		
Depreciation expenses	29,391	26,138
Amortization expenses	2,102	1,998
Expected credit loss (gain)	508	(4,744)
Net gain on fair value changes of financial assets at fair value through profit or loss	(1,261)	(2,125)
Finance costs	113	301
Interest income	(5,958)	(3,951)
Share-based payment	-	826
Unrealized loss (gain) on foreign currency exchange	13,905	(2,053)
Changes in operating assets and liabilities		
Accounts receivable	(12,688)	73,392
Other receivables	477	130
Prepayments	(12,678)	(11,727)
Other current assets	(1)	705
Contract liabilities	46,297	(24,344)
Accounts Payable	(1,204)	613
Other payables	(16,258)	(19,164)
Other current liabilities	(<u>2,656</u>)	(<u>2,451</u>)
Cash generated from operations	278,142	294,141
Interest received	5,958	3,951
Interest paid	(113)	(301)
Income tax paid	(<u>57,478</u>)	(<u>73,816</u>)
Net cash generated from operating activities	<u>226,509</u>	<u>223,975</u>

(Continued)

	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	\$ -	(\$ 1,100)
Disposal of financial assets at fair value through other comprehensive income	10,053	-
Purchase of financial assets at amortized cost	(379,880)	(14,000)
Purchase of financial assets at fair value through profit or loss	(180,000)	(782,000)
Proceeds from disposal of financial assets at fair value through profit or loss	476,798	270,003
Acquisition of property, plant and equipment	(13,798)	(37,248)
Increase in refundable deposits	-	(5,314)
Decrease in refundable deposits	101	-
Acquisition of intangible assets	(5,481)	-
Decrease in other financial assets	<u>-</u>	<u>55,494</u>
Net cash generated from/(used in) investing activities	(<u>92,207</u>)	(<u>514,165</u>)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	-	(40,000)
Repayment of the principal portion of lease liabilities	(6,688)	(5,637)
Proceeds from issuance of ordinary shares	-	608,472
Cash dividends paid	(234,885)	(219,226)
Payments to acquire treasury shares	(48,064)	-
Payment of shares issuance costs	-	(3,000)
Others	<u>-</u>	<u>913</u>
Net cash generated from/(used in) from financing activities	(<u>289,637</u>)	<u>341,522</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>1,081</u>	<u>1,160</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(154,254)	52,492
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	<u>589,555</u>	<u>362,445</u>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	<u>\$ 435,301</u>	<u>\$ 414,937</u>

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019 (Reviewed, Not Audited) (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on November 3, 2020.

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

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

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

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

Upon the initial application of this amendment from January 1, 2020, the Group changed the threshold for materiality to “could reasonably be expected to influence the decisions of users.” The Group also adjusted the disclosures in the consolidated financial statements, deleting immaterial information that might obscure the material information.

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

<u>New/Revised/Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
“Annual Improvements to IFRS Standards 2018–2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
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, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)

New/Revised/Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendments to IAS 37 “Onerous Contracts–Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

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

c. Basis of consolidation

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

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

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

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

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

Please refer to Note 11, Table 4, and Table 5 for the details, the ownership percentage, and the main business of subsidiaries.

d. Other significant accounting policies

Except for the following, please refer to the summary of significant accounting policies in the Company's consolidated financial statements for the year ended December 31, 2019.

Taxation

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group considers the economic implications of the COVID-19 when making its critical accounting estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. For other related information, please refer to the Critical Accounting Judgments and Key Sources of Estimation Uncertainty in the Company's consolidated financial statements for the year ended December 31, 2019.

6. CASH AND CASH EQUIVALENTS

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Cash on hand	\$ 70	\$ 70	\$ 70
Checking accounts and demand deposits	289,731	165,820	212,150
Cash equivalents (investments with original maturities of less than 3 months)			
Time deposits	145,500	423,665	202,717
	<u>\$ 435,301</u>	<u>\$ 589,555</u>	<u>\$ 414,937</u>

The market rate intervals of cash in the bank at balance sheet dates were as follows:

	<u>September 30,2020</u>	<u>December 31,2019</u>	<u>September 30,2019</u>
Bank deposits	0.01%~0.40%	0.01%~2.33%	0.01%~2.55%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>September 30,2020</u>	<u>December 31,2019</u>	<u>September 30,2019</u>
<u>Current</u>			
Mandatorily measured at FVTPL			
Non-derivative financial assets			
--fund beneficiary certificate	<u>\$ 209,330</u>	<u>\$ 504,867</u>	<u>\$ 564,153</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investment in equity instrument

	<u>September 30,2020</u>	<u>December 31,2019</u>	<u>September 30,2019</u>
<u>Non-current</u>			
Domestic Investment			
Listed shares and emerging market shares			
Ordinary shares –			
iSTART-TEK Inc.	<u>\$ 18,000</u>	<u>\$ -</u>	<u>\$ -</u>
Unlisted shares			
Ordinary shares –			
iSTART-TEK Inc.	<u>\$ -</u>	<u>\$ 9,350</u>	<u>\$ 9,350</u>

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

9. FINANCIAL ASSETS AT AMORTIZED COST

	<u>September 30,2020</u>	<u>December 31,2019</u>	<u>September 30,2019</u>
<u>Current</u>			
Domestic investments			
Time deposits with original maturity over 3 months	<u>\$ 436,500</u>	<u>\$ 73,960</u>	<u>\$ 76,080</u>

The ranges of interest rates for time deposits with original maturity of more than 3 months were 0.42% ~ 1.275%, 1.04% ~ 2.30% and 1.04% ~ 2.70% as of September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

10. ACCOUNTS RECEIVABLE

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
<u>Accounts Receivable</u>			
At amortized cost			
Gross carrying amount	\$ 196,039	\$ 182,102	\$ 170,003
Less: Allowance for impairment loss	(<u>3,425</u>)	(<u>2,820</u>)	(<u>8,452</u>)
	<u>\$ 192,614</u>	<u>\$ 179,282</u>	<u>\$ 161,551</u>

Accounts receivable

As provided by contracts, payments shall be received for services rendered by the Group within 30 to 90 days from the completion of each phase. In determining the recoverability of accounts receivable, the Group considers any change in the credit quality of the accounts receivable since the date the credit was initially granted to the balance sheet dates.

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

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

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

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

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

September 30, 2020

	<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%~0.22%	0%~1.40%	0%~5.33%	-	0%~17.10%	100%	
Gross carrying amount	\$ 148,541	\$ 38,786	\$ 5,438	\$ -	\$ 1,222	\$ 2,052	\$ 196,039
Loss allowance (lifetime ECL)	(<u>332</u>)	(<u>542</u>)	(<u>290</u>)	-	(<u>209</u>)	(<u>2,052</u>)	(<u>3,425</u>)
Amortized cost	<u>\$ 148,209</u>	<u>\$ 38,244</u>	<u>\$ 5,148</u>	<u>\$ -</u>	<u>\$ 1,013</u>	<u>\$ -</u>	<u>\$ 192,614</u>

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%~0.25%	0%~1.58%	0%~6.02%	0%~10.84%	0%~14.92%	-	
Gross carrying amount	\$ 118,745	\$ 43,071	\$ 11,706	\$ 3,468	\$ 5,112	\$ -	\$ 182,102
Loss allowance (lifetime ECL)	(294)	(682)	(705)	(376)	(763)	-	(2,820)
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>

September 30, 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%~0.43%	0%~1.82%	0%~5.49%	0%~15.34%	0%~28.16%	-	
Gross carrying amount	\$ 97,148	\$ 41,355	\$ 6,790	\$ 313	\$ 24,397	\$ -	\$ 170,003
Loss allowance (lifetime ECL)	(408)	(753)	(373)	(48)	(6,870)	-	(8,452)
Amortized cost	<u>\$ 96,740</u>	<u>\$ 40,602</u>	<u>\$ 6,417</u>	<u>\$ 265</u>	<u>\$ 17,527</u>	<u>\$ -</u>	<u>\$ 161,551</u>

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

	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Balance, beginning of period	\$ 2,820	\$ 9,661
Add: Amounts recovered	-	3,583
Add: Net remeasurement of loss allowance	508	-
Less: Gain on reversal of impairment loss	-	(4,744)
Effect of exchange rate changes	97	(48)
Balance, end of period	<u>\$ 3,425</u>	<u>\$ 8,452</u>

11. SUBSIDIARIESSubsidiaries included in the consolidated financial statements

The subjects of the consolidated financial statements are as follows:

<u>Investor</u>	<u>Investee</u>	<u>Nature of Activities</u>	<u>Proportion of Ownership (%)</u>			<u>Remark</u>
			<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>	
The Company	M31 Technology USA, INC.	Product marketing and technical services	100%	100%	100%	(1)
	Sirius Venture Ltd.	Investment holding	100%	100%	100%	(1)
Sirius Venture Ltd.	M31 Technology (Shanghai) Inc.	Product marketing and technical services	100%	100%	100%	(2)

Remark:

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

12. PROPERTY, PLANT AND EQUIPMENT

Assets used by the Group

	<u>Land</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Other Facilities</u>	<u>Total</u>
<u>Cost</u>					
Balance at January 1, 2020	\$ 98,853	\$ 70,816	\$ 23,433	\$ 79,087	\$ 272,189
Additions	-	866	-	35,787	36,653
Disposals	-	(225)	-	(16,087)	(16,312)
Net exchange differences	-	(9)	-	(6)	(15)
Balance at September 30, 2020	<u>\$ 98,853</u>	<u>\$ 71,448</u>	<u>\$ 23,433</u>	<u>\$ 98,781</u>	<u>\$ 292,515</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2020	\$ -	\$ 46,571	\$ 14,604	\$ 42,038	\$ 103,213
Depreciation expenses	-	6,024	3,359	13,406	22,789
Disposals	-	(225)	-	(16,087)	(16,312)
Net exchange differences	-	(9)	-	(4)	(13)
Balance at September 30, 2020	<u>\$ -</u>	<u>\$ 52,361</u>	<u>\$ 17,963</u>	<u>\$ 39,353</u>	<u>\$ 109,677</u>
Carrying amounts at September 30, 2020	<u>\$ 98,853</u>	<u>\$ 19,087</u>	<u>\$ 5,470</u>	<u>\$ 59,428</u>	<u>\$ 182,838</u>
Carrying amounts at December 31, 2019 and January 1, 2020	<u>\$ 98,853</u>	<u>\$ 24,245</u>	<u>\$ 8,829</u>	<u>\$ 37,049</u>	<u>\$ 168,976</u>
<u>Cost</u>					
Balance at January 1, 2019	\$ 98,853	\$ 51,713	\$ 22,285	\$ 56,781	\$ 229,632
Disposals	-	(543)	-	-	(543)
Additions	-	12,573	1,148	20,693	34,414
Reclassified (Note)	-	4,787	-	-	4,787
Net exchange differences	-	3	-	(1)	2
Balance at September 30, 2019	<u>\$ 98,853</u>	<u>\$ 68,533</u>	<u>\$ 23,433</u>	<u>\$ 77,473</u>	<u>\$ 268,292</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2019	\$ -	\$ 40,415	\$ 9,752	\$ 26,016	\$ 76,183
Disposals	-	(543)	-	-	(543)
Depreciation expenses	-	4,691	3,605	12,136	20,432
Net exchange differences	-	-	-	1	1
Balance at September 30, 2019	<u>\$ -</u>	<u>\$ 44,563</u>	<u>\$ 13,357</u>	<u>\$ 38,153</u>	<u>\$ 96,073</u>
Carrying amounts at September 30, 2019	<u>\$ 98,853</u>	<u>\$ 23,970</u>	<u>\$ 10,076</u>	<u>\$ 39,320</u>	<u>\$ 172,219</u>

Note: Transferred from prepayments for equipment.

No impairment assessment was performed for the nine months ended September 30, 2020 and 2019 as there was no indication of impairment.

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

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

13. LEASE AGREEMENT

a. Right-of-use assets

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Carrying amounts			
Buildings	\$ <u>6,429</u>	\$ <u>9,509</u>	\$ <u>11,410</u>
	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>
Additions to right-of-use assets	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,634</u>
Depreciation of right-of-use assets			
Buildings	\$ <u>2,197</u>	\$ <u>1,902</u>	\$ <u>6,602</u>
	<u>Nine Months Ended September 30, 2019</u>		\$ <u>5,706</u>

Expect for the aforementioned addition and recognized depreciation expenses, the Group has no significant subleasing and impairment losses in right-of-use assets for the nine months ended September 30, 2020 and 2019.

b. Lease liabilities

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
<u>Carrying Amounts</u>			
Current	\$ <u>5,010</u>	\$ <u>7,652</u>	\$ <u>7,622</u>
Non-current	\$ <u>1,412</u>	\$ <u>1,933</u>	\$ <u>3,857</u>

Discount rate for lease liabilities is as follows:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Buildings	1.60%	1.60%	1.60%

c. Other lease information

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Expenses relating to short-term leases	\$ <u>276</u>	\$ <u>539</u>	\$ <u>962</u>	\$ <u>1,437</u>
Total cash outflow for leases	(\$ <u>2,504</u>)	(\$ <u>2,473</u>)	(\$ <u>7,763</u>)	(\$ <u>7,241</u>)

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

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Lease commitments	\$ <u>21,190</u>	\$ <u>24,158</u>	\$ <u>20,358</u>

14. INTANGIBLE ASSETS

	<u>Patents</u>	<u>Software</u>	<u>Total</u>
<u>Cost</u>			
Balance at January 1, 2020	\$ -	\$ 8,466	\$ 8,466
Separately acquired	-	<u>5,481</u>	<u>5,481</u>
Balance at September 30, 2020	<u>\$ -</u>	<u>\$ 13,947</u>	<u>\$ 13,947</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2020	\$ -	\$ 6,119	\$ 6,119
Amortization expenses	-	<u>2,102</u>	<u>2,102</u>
Balance at September 30, 2020	<u>\$ -</u>	<u>\$ 8,221</u>	<u>\$ 8,221</u>
Carrying amounts at September 30, 2020	<u>\$ -</u>	<u>\$ 5,726</u>	<u>\$ 5,726</u>
Carrying amounts at December 31, 2019 and January 1, 2020	<u>\$ -</u>	<u>\$ 2,347</u>	<u>\$ 2,347</u>
<u>Cost</u>			
Balance at January 1, 2019 and September 30, 2019	<u>\$ 11,041</u>	<u>\$ 24,821</u>	<u>\$ 35,862</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2019	\$ 11,041	\$ 20,256	\$ 31,297
Amortization expenses	-	<u>1,998</u>	<u>1,998</u>
Balance at September 30, 2019	<u>\$ 11,041</u>	<u>\$ 22,254</u>	<u>\$ 33,295</u>
Carrying amounts at September 30, 2019	<u>\$ -</u>	<u>\$ 2,567</u>	<u>\$ 2,567</u>

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

An analysis of amortization expenses by function:

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
General and administrative expenses	\$ 84	\$ 94	\$ 272	\$ 282
Research and development expenses	<u>682</u>	<u>572</u>	<u>1,830</u>	<u>1,716</u>
	<u>\$ 766</u>	<u>\$ 666</u>	<u>\$ 2,102</u>	<u>\$ 1,998</u>

15. OTHER ASSETS

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
<u>Current</u>			
Prepayments	\$ 30,228	\$ 17,550	\$ 23,021
Refundable deposits	2,443	1,867	1,867
Others	<u>2</u>	<u>1</u>	<u>143</u>
	<u>\$ 32,673</u>	<u>\$ 19,418</u>	<u>\$ 25,031</u>
<u>Non-current</u>			
Refundable deposits	<u>\$ 5,446</u>	<u>\$ 6,123</u>	<u>\$ 6,020</u>

16. ACCOUNTS PAYABLE

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
<u>Accounts Payable</u>			
Operating	<u>\$ 903</u>	<u>\$ 2,079</u>	<u>\$ 2,435</u>

17. OTHER LIABILITIES

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
<u>Current</u>			
Other payables			
Payables for salaries or bonuses	\$ 51,725	\$ 69,339	\$ 46,658
Payables for purchases of equipment	29,374	3,700	3,887
Payables for annual leave	5,360	4,593	4,384
Payables for retirement benefits	2,883	2,766	2,611
Payables for insurance	2,688	2,632	2,457
Payables for professional service fees	1,191	4,229	2,251
Payables for tax expense	-	202	53
Others	<u>3,058</u>	<u>2,209</u>	<u>4,203</u>
	<u>\$ 96,279</u>	<u>\$ 89,670</u>	<u>\$ 66,504</u>
Other liabilities			
Collection	<u>\$ 2,958</u>	<u>\$ 5,614</u>	<u>\$ 2,747</u>

18. RETIREMENT BENEFIT PLANS

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

19. EQUITY

a. Share capital

Ordinary shares

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Number of shares authorized (in thousands)	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Shares authorized	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Number of shares issued and fully paid (in thousands)	<u>31,318</u>	<u>31,318</u>	<u>31,318</u>
Shares issued	<u>\$ 313,180</u>	<u>\$ 313,180</u>	<u>\$ 313,180</u>

On September 25, 2018, the Group's board of directors resolved to issue 2,678 thousand ordinary shares for the capital increase for Initial Public Offering, with a par value of \$10 each. The aforementioned capital increase includes Weighted Average Price \$238.57 from bidding auctions, 1,928 thousand ordinary shares from bidding, and a fixed underwriting price of \$198 per share, 611 thousand underwriting shares to be offered, and 139 thousand ordinary shares of employee stock,

amounting to \$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>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>			
Arising from issuance of ordinary shares	\$ 630,511	\$ 630,511	\$ 630,242
<u>May be used to offset a deficit only (2)</u>			
Arising from employee share options	<u>4,040</u>	<u>4,040</u>	<u>4,040</u>
	<u>\$ 634,551</u>	<u>\$ 634,551</u>	<u>\$ 634,282</u>

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

The balance adjustment in capital surplus for the nine months ended September 30 in 2020 and 2019 were as follows:

	<u>Arising from issuance of ordinary shares</u>	<u>Arising from employee share options</u>	<u>Employee share options</u>	<u>Total</u>
Balance at January 1 and September 30, 2020	<u>\$ 630,511</u>	<u>\$ 4,040</u>	<u>\$ -</u>	<u>\$ 634,551</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
Others (Note)	<u>913</u>	<u>-</u>	<u>-</u>	<u>913</u>
Balance at September 30, 2019	<u>\$ 630,242</u>	<u>\$ 4,040</u>	<u>\$ -</u>	<u>\$ 634,282</u>

Note: When the Group employees resign during the stock trust period, the Employee Stock Trust Management Committee will sell 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 employees, the remaining amount remitted back to the Company was \$913 thousand for the nine months ended September 30, 2019, which was regarded as the Company’s issuances 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.

The Company's Articles of Incorporation state the policies on the distribution of employees' compensation and remuneration of directors, refer to "Employees' compensation and remuneration of directors" in Note 21 (g).

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

The appropriations of 2019 and 2018 earnings have been approved by the Company's shareholders in its meeting held on May 29, 2020, and May 30, 2019, respectively. The appropriations and dividends per share were as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Legal reserve	<u>\$ 30,856</u>	<u>\$ 27,991</u>
Cash dividends	<u>\$ 234,885</u>	<u>\$ 219,226</u>
Cash dividends per share (NT\$)	\$ 7.5	\$ 7.0

d. Other equity items

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Balance, beginning of period	(\$ 67)	\$ 287
Recognized for the period		
Exchange differences on translating the financial statements of foreign operations	(429)	55
Income tax effect on translating the financial statements of foreign operations	<u>86</u>	<u>(11)</u>
Balance, end of period	<u>(\$ 410)</u>	<u>\$ 331</u>

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Balance, beginning of period	<u>\$ 3,250</u>	<u>\$ 3,260</u>
Recognized for the period		
Unrealized gain (loss)		
Equity instruments	<u>18,703</u>	<u>(10)</u>
Other comprehensive income (loss) for the period	<u>18,703</u>	<u>(10)</u>
Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	<u>(8,389)</u>	<u>-</u>
Balance, end of period	<u>\$ 13,564</u>	<u>\$ 3,250</u>

e. Treasury shares

Purpose of Buy-back	Shares Transferred to Employees (In Thousands of Shares)
Number of shares at January 1, 2020	-
Increase during the period	<u>211</u>
Number of shares at September 30, 2020	<u>211</u>

In March 16, 2020, the Board of Directors approved the Company's first repurchase of shares that authorized the purchase of up to 250 thousand shares from March 17, 2020 to May 16, 2020. As of September 30, 2020, the Company has repurchased 211 thousand shares in total with an average cost of 227.79 dollars.

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

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

20. REVENUE

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Technical service revenue	<u>\$ 235,767</u>	<u>\$ 252,152</u>	<u>\$ 591,118</u>	<u>\$ 563,256</u>
Royalty revenue	<u>34,885</u>	<u>17,406</u>	<u>85,298</u>	<u>57,447</u>
	<u>\$ 270,652</u>	<u>\$ 269,558</u>	<u>\$ 676,416</u>	<u>\$ 620,703</u>

a. Contract information

1) Technical service revenue

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

2) Royalty revenue

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

b. Contract balances

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>	<u>January 1, 2019</u>
Accounts receivable (Note 10)	\$ 192,614	\$ 179,282	\$ 161,551	\$ 230,096
Contract liabilities - current				
Technical service revenue	<u>\$ 73,828</u>	<u>\$ 27,531</u>	<u>\$ 33,671</u>	<u>\$ 58,015</u>

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

21. NET PROFIT FROM CONTINUING OPERATIONS

The net profit from continuing operations comprises the following items:

a. Interest income

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Bank deposits	\$ 1,217	\$ 874	\$ 5,884	\$ 3,900
Imputed interest on deposit	<u>4</u>	<u>4</u>	<u>74</u>	<u>51</u>
	<u>\$ 1,221</u>	<u>\$ 878</u>	<u>\$ 5,958</u>	<u>\$ 3,951</u>

b. Other income

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Other income	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 322</u>	<u>\$ 355</u>

c. Other gains and losses

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Net foreign exchange (losses) gains	(\$ 19,330)	(\$ 892)	(\$ 29,531)	\$ 4,753
Net interest from financial assets at fair value through profit or loss	180	886	1,261	2,125
Others	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>(3)</u>
	<u>(\$ 19,150)</u>	<u>(\$ 7)</u>	<u>(\$ 28,270)</u>	<u>\$ 6,875</u>

d. Finance costs

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Interest on bank loans	\$ -	\$ -	\$ -	\$ 134
Interest on lease liabilities	<u>29</u>	<u>48</u>	<u>113</u>	<u>167</u>
	<u>\$ 29</u>	<u>\$ 48</u>	<u>\$ 113</u>	<u>\$ 301</u>

e. Depreciation and amortization

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
An analysis of depreciation by function				
Operating expenses	<u>\$ 9,713</u>	<u>\$ 8,959</u>	<u>\$ 29,391</u>	<u>\$ 26,138</u>
An analysis of amortization by function				
Operating expenses	<u>\$ 766</u>	<u>\$ 666</u>	<u>\$ 2,102</u>	<u>\$ 1,998</u>

f. Employee benefits expense

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Short-term employee benefits	\$ 97,776	\$ 84,504	\$ 251,362	\$ 220,287
Other employees benefits				
Labor and health Insurance	4,459	4,134	13,854	12,607
Other employee benefits	1,922	1,900	5,901	5,463
Share-based payments	-	-	-	826
Post employment benefits				
Defined contribution plans	<u>3,013</u>	<u>2,611</u>	<u>9,024</u>	<u>7,708</u>
Total employee benefits expenses	<u>\$ 107,170</u>	<u>\$ 93,149</u>	<u>\$ 280,141</u>	<u>\$ 246,891</u>
An analysis of employee benefits expense by function				
Operating expenses	<u>\$ 107,170</u>	<u>\$ 93,149</u>	<u>\$ 280,141</u>	<u>\$ 246,891</u>

g. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors at rates of no less than 1% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and the remuneration of directors for the three months ended September 30, 2020 and 2019, and the nine months ended September 30, 2020 and 2019, are as follows:

Accrual rate

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Employees' compensation	1.20%	1.27%
Remuneration of directors	1.20%	1.18%

Amount

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Employees' compensation	<u>\$ 1,156</u>	<u>\$ 1,772</u>	<u>\$ 2,910</u>	<u>\$ 3,400</u>
Remuneration of directors	<u>\$ 1,156</u>	<u>\$ 1,648</u>	<u>\$ 2,910</u>	<u>\$ 3,150</u>

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

The employees' compensation and the remuneration of directors for the years ended December 31, 2019 and 2018, which were approved by the Company's board of directors on February 19, 2020 and March 4, 2019, respectively, are as follows:

Amount

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018.

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

h. Gains or losses on foreign currency exchange

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Foreign exchange gains	\$ 3,728	\$ 12,495	\$ 27,837	\$ 31,698
Foreign exchange losses	(23,058)	(13,387)	(57,368)	(26,945)
Net (loss) profit	<u>(\$ 19,330)</u>	<u>(\$ 892)</u>	<u>(\$ 29,531)</u>	<u>\$ 4,753</u>

22. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of income tax expense are as follows:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Current Tax				
In respect of the current period	\$ 14,665	\$ 18,862	\$ 35,208	\$ 34,844
Income tax on unappropriated earnings	-	-	-	1,685
Adjustments for prior year	-	-	(3,491)	2,703
Non-deductible foreign tax	<u>94</u>	<u>-</u>	<u>1,857</u>	<u>1,919</u>
	14,759	18,862	33,574	41,151
Deferred Tax				
In respect of the current period	<u>(1,670)</u>	<u>171</u>	<u>(1,334)</u>	<u>1,441</u>
Income tax expense recognized in profit or loss	<u>\$ 13,089</u>	<u>\$ 19,033</u>	<u>\$ 32,240</u>	<u>\$ 42,592</u>

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings.

b. Income tax recognized in other comprehensive income

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
<u>Deferred Tax</u>				
In respect of the current period				
Translation of foreign operations	(\$ 42)	(\$ 24)	(\$ 86)	\$ 11
Income tax recognized in other comprehensive income	<u>(\$ 42)</u>	<u>(\$ 24)</u>	<u>(\$ 86)</u>	<u>\$ 11</u>

c. Income tax assessments

The tax authorities have examined income tax returns of the Company through 2017. The Group has no pending tax litigation as of September 30, 2020.

23. EARNINGS PER SHARE

	Unit: NT\$ Per Share			
	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Basic earnings per share				
From continuing operations	<u>\$ 2.63</u>	<u>\$ 3.72</u>	<u>\$ 6.60</u>	<u>\$ 7.00</u>
Diluted earnings per share				
From continuing operations	<u>\$ 2.63</u>	<u>\$ 3.72</u>	<u>\$ 6.60</u>	<u>\$ 7.00</u>

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

Net Profit for the Period

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Earnings used in the computation of basic and diluted earnings per share	<u>\$ 81,887</u>	<u>\$ 116,526</u>	<u>\$ 205,813</u>	<u>\$ 218,005</u>

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

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Weighted average number of ordinary shares used in the computation of basic earnings per share	31,107	31,318	31,186	31,122
Effect of potentially dilutive ordinary shares:				
Employees' compensation	<u>10</u>	<u>10</u>	<u>12</u>	<u>14</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>31,117</u>	<u>31,328</u>	<u>31,198</u>	<u>31,136</u>

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

24. SHARE-BASED PAYMENT ARRANGEMENTS

The Company conducted a cash capital increase reserved for employee stock 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 as follows:

	<u>January, 2019</u>
Granted-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 for the nine months ended September 30, 2019.

25. CASH FLOW INFORMATION

a. Non-cash transactions

For the nine months ended September 30, 2020 and 2019, the Group entered into the following non-cash investing and financing activities which were not reflected in the consolidated statement of cash flows.

On September 30, 2020, December 31, 2019, and September 30 2019, the Group respectively acquired property, plant and equipment of \$29,374 thousand, \$3,700 thousand, and \$3,887 thousand, which are recognized as payables on equipment. Please refer to Note 17.

b. Changes in liabilities arising from financing activities

Nine Months Ended September 30, 2020

	<u>January 1, 2020</u>	<u>Cash Flows</u>	<u>Non-Cash Changes</u>		<u>September 30, 2020</u>
			<u>New Leases</u>	<u>Exchange Rate Changes</u>	
Lease liabilities	<u>\$ 9,585</u>	<u>(\$ 6,688)</u>	<u>\$ 3,634</u>	<u>(\$ 109)</u>	<u>\$ 6,422</u>

Nine Months Ended September 30, 2019

	<u>January 1, 2019</u>	<u>Cash Flows</u>	<u>September 30, 2019</u>
Short-term loans	\$ 40,000	(\$ 40,000)	\$ -
Lease liabilities	<u>17,116</u>	<u>(5,637)</u>	<u>11,479</u>
	<u>\$ 57,116</u>	<u>(\$ 45,637)</u>	<u>\$ 11,479</u>

26. CAPITAL MANAGEMENT

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

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

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

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

27. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy

September 30, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets at FVTPL</u>				
Beneficiary certificate of funds	\$ 209,330	\$ -	\$ -	\$ 209,330
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments				
– Domestic listed shares and emerging market shares	\$ -	\$ -	\$ 18,000	\$ 18,000

December 31, 2019

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

September 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets at FVTPL</u>				
Beneficiary certificate of funds	\$ 564,153	\$ -	\$ -	\$ 564,153
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments				
– Domestic unlisted shares	\$ -	\$ -	\$ 9,350	\$ 9,350

There were no transfers between levels 1 and 2 for the nine months ended September 30, 2020 and 2019.

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

Nine Months Ended September 30, 2020

<u>Financial Assets</u>	<u>Financial Assets at FVTOCI Equity Instruments</u>
Balance, beginning of period	\$ 9,350
Recognized in other comprehensive income	18,703
Disposals	(10,053)
Balance, end of period	<u>\$ 18,000</u>

Nine Months Ended September 30, 2019

<u>Financial Assets</u>	<u>Financial Assets at FVTOCI Equity Instruments</u>
Balance, beginning of period	\$ 8,260
Recognized in other comprehensive income	(10)
Purchases	<u>1,100</u>
Balance, end of period	<u>\$ 9,350</u>

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

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

c. Categories of financial instruments

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
<u>Financial Assets</u>			
FVTPL			
Mandatorily classified as at FVTPL	\$ 209,330	\$ 504,867	\$ 564,153
Amortized cost (1)	1,072,309	851,269	660,560
FVTOCI			
Investment in equity instrument	18,000	9,350	9,350
<u>Financial liabilities</u>			
Amortized cost (2)	34,526	12,217	12,776

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

(2) The balances include financial liabilities measured at amortized cost, which comprise accounts payable and other payables (not including payables for salaries or bonuses, payables for annual leave, payables for retirement benefit, payables for insurance, and payables for tax expense).

d. Financial risk management objectives and policies

The Group's major instruments include equity investments, accounts receivable, accounts payable, and lease liabilities. The Group's corporate financial management function provides services to the business, coordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports that analyze exposures by degree and

magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

1) Market risk

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

a) Foreign currency risks

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

The carrying amounts of the Group's non-functional currency denominated monetary assets and monetary liabilities (including the non-functional currency monetary items that have been written off in the consolidated financial statement) at the balance sheet dates are set out in Note 29.

Sensitivity analysis

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

The following table details the Group's sensitivity to a 1% increase/decrease in the New Taiwan dollar (NTD, the functional currency) against the USD. The sensitivity rate is used when reporting foreign currency risk internally to key management personnel and representing 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 period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with the functional currency weakening 1% against the USD. For a 1% strengthening of the functional currency against the USD, there would be an equal and opposite impact on pre-tax profit, and the balances below would be negative.

	USD Impact	
	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Profit or loss	\$ 8,869	\$ 5,882

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

The Group's sensitivity to foreign currency increased during the current period mainly due to the increase in USD denominated accounts receivable.

b) Interest rate risk

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

	September 30, 2020	December 31, 2019	September 30, 2019
Fair value interest rate risk			
— Financial assets	\$ 582,000	\$ 497,625	\$ 278,797
— Financial liabilities	6,422	9,585	11,479
Cash flow interest rate risk			
— Financial assets	289,551	162,789	205,178

Sensitivity analysis

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

If interest rates had been 100 basis points increase/decrease and all other variables were held constant, the Group's pre-tax profit for the nine months ended September 30, 2020 and 2019 would increase/decrease by \$2,172 thousands and \$1,539 thousands, respectively, mainly resulting from the Group's variable-rate bank deposits.

The Group's sensitivity to interest rates increased during the current year mainly due to the increase in variable-rate bank deposits.

c) Other price risks

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

Sensitivity analysis

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

If equity prices had been 1% higher/lower, the pre-tax profit for the nine months ended September 30, 2020 and 2019 would have increased/decreased by \$2,093 thousand and \$5,642 thousands, respectively, resulting from the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the nine months ended September 30, 2020 and 2019 would have increased/decreased by \$180 thousands and \$94 thousands, respectively, resulting from the changes in fair value of financial assets at FVTOCI.

2) Credit risks

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

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

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

The Group's concentration of credit risk was mainly attributable to the Group's three largest customers, which accounted for 40%, 19%, and 15% of total accounts receivable as of September 30, 2020, December 31, 2019, and September 30, 2019, respectively.

3) Liquidity risk

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

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

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

September 30, 2020

	<u>Less than 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1 to 5 Years</u>
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 34,526	\$ -	\$ -
Lease liabilities	<u>2,224</u>	<u>2,830</u>	<u>1,424</u>
	<u>\$ 36,750</u>	<u>\$ 2,830</u>	<u>\$ 1,424</u>

Additional information about the maturity analysis for lease liabilities:

	<u>Less than 1 Year</u>	<u>1 to 5 Years</u>
Lease liabilities	<u>\$ 5,054</u>	<u>\$ 1,424</u>

December 31, 2019

	<u>Less than 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1 to 5 Years</u>
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 12,217	\$ -	\$ -
Lease liabilities	<u>1,935</u>	<u>5,805</u>	<u>1,934</u>
	<u>\$ 14,152</u>	<u>\$ 5,805</u>	<u>\$ 1,934</u>

Additional information about the maturity analysis for lease liabilities:

	<u>Less than 1 Year</u>	<u>1 to 5 Years</u>
Lease liabilities	<u>\$ 7,740</u>	<u>\$ 1,934</u>

September 30, 2019

	<u>Less than 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1 to 5 Years</u>
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 12,776	\$ -	\$ -
Lease liabilities	<u>1,935</u>	<u>5,805</u>	<u>3,869</u>
	<u>\$ 14,711</u>	<u>\$ 5,805</u>	<u>\$ 3,869</u>

Additional information about the maturity analysis for lease liabilities:

	<u>Less than 1 Year</u>	<u>1 to 5 Years</u>
Lease liabilities	<u>\$ 7,740</u>	<u>\$ 3,869</u>

28. TRANSACTIONS WITH RELATED PARTIES

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

Compensation of key management personnel

	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Short-term employee benefits	\$ 5,409	\$ 7,055	\$ 13,606	\$ 15,898
Post-employment benefits	81	108	243	324
	<u>\$ 5,490</u>	<u>\$ 7,163</u>	<u>\$ 13,849</u>	<u>\$ 16,222</u>

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

29. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

September 30, 2020

	<u>Foreign Currencies (In Thousands)</u>	<u>Exchange Rate</u>	<u>Carrying Amount (In Thousands)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 30,599	29.100 (USD : NTD)	\$ 890,431
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	123	29.100 (USD : NTD)	3,579

December 31, 2019

	<u>Foreign Currencies (In Thousands)</u>	<u>Exchange Rate</u>	<u>Carrying Amount (In Thousands)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 26,106	29.980 (USD : NTD)	\$ 782,658
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	137	29.980 (USD : NTD)	4,107

September 30, 2019

	<u>Foreign Currencies (In Thousands)</u>	<u>Exchange Rate</u>	<u>Carrying Amount (In Thousands)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 19,077	31.040 (USD : NTD)	\$ 592,149
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	128	31.040 (USD : NTD)	3,968

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

	<u>Three Months Ended September 30, 2020</u>		<u>Three Months Ended September 30, 2019</u>	
<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>Net Foreign Exchange Losses</u>	<u>Exchange Rate</u>	<u>Net Foreign Exchange Losses</u>
USD	29.450 (USD : NTD)	(\$ 12,719)	31.197 (USD : NTD)	(\$ 906)
	<u>Nine Months Ended September 30, 2020</u>		<u>Nine Months Ended September 30, 2019</u>	
<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>Net Foreign Exchange Losses</u>	<u>Exchange Rate</u>	<u>Net Foreign Exchange Gains</u>
USD	29.817 (USD : NTD)	(\$ 13,905)	31.054 (USD : NTD)	\$ 2,053

30. 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) Others: intercompany relationships and significant intercompany transactions: Table 3.

11) Information on investees: Table 4.

c. Information on investments in mainland China

- 1) The name of the investee company in mainland China, the principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, current profit and loss, recognized investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 5.
- 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 5.
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period 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 period or on the financial position, such as the rendering or receipt of services.

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

Shareholder Name	Shares	
	Shares Held	Percentage of Ownership
Hsiao-ping Lin	6,604,000	21.08%
Hui-ling Chen	4,554,000	14.54%
Jui-Chun Investment Company Limited	1,642,000	5.24%

31. SEGMENT INFORMATION

Industrial financial information

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

SEPTEMBER 30, 2020

(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	September 30, 2020				Note
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	Fair Value	
The Company	<u>Shares</u> ISTART-TEK INC.	—	Financial assets at fair value through other comprehensive income — non-current	400	\$ 18,000	1.96	\$ 18,000	—
	<u>Fund beneficiary certificate</u> Taishin 1699 Money Market Fund	—	Financial assets at fair value through profit or loss — current	4,425	60,335	-	60,335	—
	FSITC Money Market Fund	—	Financial assets at fair value through profit or loss — current	662	118,994	-	118,994	—
	Hua Nan Phoenix Money Market Fund	—	Financial assets at fair value through profit or loss — current	1,832	30,001	-	30,001	—

Note: For relevant information on investment in subsidiaries, please refer to Table 4 and Table 5.

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(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)
The Company	<u>Fund beneficiary certificate</u> FSITC Money Market Fund	Financial assets at fair value through profit or loss – current	1,237	\$ 221,531	640	\$ 115,000	1,215	\$ 218,007	\$ 216,656	\$ 1,351	662	\$ 118,994
	Hua Nan Phoenix Money Market Fund	Financial assets at fair value through profit or loss – current	11,189	182,597	1,832	30,000	11,189	183,046	182,000	1,046	1,832	30,001

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(In Thousands of New Taiwan Dollars)**

No. (Note 1)	Company	Counterparty	Relationship (Note 2)	Transaction Details			
				Financial Statement Accounts	Amount (Note 5)	Payment Terms	Percentage of Total Sales or Assets (Note 3)
0	M31 Technology Corporation	M31 Technology USA, INC.	1	Service revenue	\$ 119,615	Decided by mutual agreement based on market price	18
			1	Accounts receivable- related-party	64,335	Net 90 days from the end of the transaction month	4
1	M31 Technology USA, INC.	M31 Technology Corporation	2	Accounts receivable- related-party	3,156	Net 30 days from the end of the transaction month	-
			2	Marketing revenue	14,566	Decided by mutual agreement based on market price	2
2	M31 Technology (Shanghai) Inc.	M31 Technology Corporation	2	Marketing revenue	813	Decided by mutual agreement based on market price	-

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

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

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

1. Transactions from parent company to subsidiary.
2. Transactions from subsidiary to parent company.
3. Transactions from subsidiary to subsidiary.

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

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

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

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

(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 September 30, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				September 30, 2020	September 30, 2019	Number of Shares	%	Carrying Amount			
The Company	M31 Technology USA, INC.	USA	Product marketing and technical service	\$ 13,531	\$ 13,531	450	100	\$ 13,749	\$ 1,177	\$ 1,177	Subsidiaries accounted by USD
	Sirius Venture Ltd.	Republic of Seychelles	Investment Holdings	5,364	5,364	167	100	2,449	(587)	(587)	Subsidiaries accounted by USD

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

Note 2: For relevant information on investee companies in mainland China, please refer to Table 5.

M31 TECHNOLOGY CORPORATION AND SUBSIDIARIES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(In Thousands of New Taiwan Dollars or United States Dollars)**

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

Investee Company	Principal Business Activities	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of September 30, 2020	Net Income (Loss) of the investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2 and Note 3)	Carrying Amount as of September 30, 2020 (Note 2 and Note 3)	Accumulated Repatriation of Investment Income as of September 30, 2020	Note
					Outward	Inward							
M31 Technology (Shanghai) Inc.	Product marketing and technical service	USD 100	(2)	\$ 3,340	\$ -	\$ -	\$ 3,340	(\$ 587)	100	(\$ 587)	\$ 2,256	\$ -	—

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

Accumulated Outward Remittance for Investments in Mainland China as of September 30, 2020	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	\$ 829,676

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 September 30, 2020:

Sirius Venture Ltd. had recognized the Investment Gain (Loss) on the investment in the Investee Company M31 Technology (Shanghai) Inc. for the nine months ended September 30, 2020 and the Carrying Value as of September 30, 2020.

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

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

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

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

Related Parties Name	Relationship With The Company	Transaction Type	Amount	Transaction Details			Note/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	\$ 813	Contract-based	Net 30 days from the end of the transaction month	No significant differences	\$ -	-	\$ -

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