# ASPEED Technology Inc. and Subsidiaries

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

**DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2020 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard No. 10, "Consolidated Financial Statements". Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

ASPEED Technology Inc.

By

Chris Lin
Chairman

March 8, 2021

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# INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
ASPEED Technology Inc.

## Opinion

We have audited the accompanying consolidated financial statements of ASPEED Technology Inc. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

## Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in the Group's consolidated financial statements for the year ended December 31, 2020 are stated as follows:

### Recognition of revenue

The Group operates principally as a supplier of multimedia integrated circuits (ICs) and computer peripherals oriented ICs. For the year ended December 31, 2020, the Group recognized revenue of NT$3,063,552 thousand, which increased by 23% compared with that of last year, refer to Note 21 for related information. Due to the increasing market demand for remote server management system, the significant changes in the amount of the Group's operating revenue in recent years have a significant impact on the consolidated financial statements for the year ended December 31, 2020. For customers whose sales growth rates were significant, we considered the existence and occurrence of sales as key audit matters of the current period.

The audit procedures that we performed included, but not limited to the following: We evaluated the appropriateness of the Company's accounting policies relating to revenue recognition. We obtained an understanding of the internal controls over the approval of sales order and shipping. We tested the effectiveness of those internal controls and selected samples of sales documents to verify the sales authenticity by inspecting sales details, including cash collections in the audited period and the subsequent period. Moreover, we checked for abnormalities between the recorded sales and cash received.

Goodwill impairment test

To create synergy that benefits the Group's existing products and in response to the global growth of server remote management system, ASPEED Technology Inc. acquired Emulex Corporation's pilot product line, which was under Broadcom Group, at the price of NT$926,937 thousand (or US$28,658 thousand), and ASPEED Technology Inc. also recognized intangible assets including client relationship, know-how, licenses, trademark, and goodwill. As of December 31, 2020, goodwill was NT$369,040 thousand, accounting for 10% of the total assets, and it was significant to the consolidated financial statements. According to IAS 36, the goodwill impairment assessment test should be conducted annually. When assessing whether the goodwill is impaired or not, the management needs to assess whether the recoverable amount calculated according to the value-of-use model is still higher than the carrying amount of the goodwill. In assessing the foregoing, it is necessary to estimate the operating cash flow that may arise in the future and determine the appropriate discount rate to calculate the recoverable amount.

The management engaged an external appraiser to issue a goodwill impairment assessment report. When determining the future operating cash flow, the management will consider the sales growth rate and profit rate based on the future operating outlook and calculate the weighted average cost of capital as the discount rate. Since these key assumptions involve subjective judgments of management and may be affected by future market or economy, there is a high degree of uncertainty over the estimates. Therefore, the goodwill impairment assessment is one of the key audit matters for the year.

Refer to Note 4 (i), Notes 5 and 13 to the consolidated financial statements for the information on the accounting policies, accounting estimates and assumptions of the impairment assessments.

We performed the following major auditing procedures (but not limited to the following) to assess the significant estimates and the reasonableness of assumptions used in the estimated future operating cash flows and weighted average cost of capital ratios when the Group estimates the impairment of goodwill:

1. We understood the process and basis for the management's estimated sales growth rate and profit margin for the future operating outlook.

2. We determined that the estimates of the future operating cash flows are consistent with the future operating plans approved by the board of directors and the future sales growth rates and profit margins adopted, considered the recent operating results, historical trends and industry profiles, etc. and were updated as appropriate.

3. With the assistance of our internal financial advisors, we assessed the recoverable amount calculated by the management based on the value-in-use model, using the weighted average cost of capital, including the risk-free rate, volatility and risk premium assumptions; we checked that the calculations were in compliance with the industry requirements.

## Other Matter

We have also audited the parent company only financial statements of ASPEED Technology Inc. as of and for the years ended December 31, 2020 and 2019 on which we have issued an unmodified opinion.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group 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 Group's financial reporting process.

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our

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

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 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 audits resulting in this independent auditors' report are Ming Hui Chen and Yi Shin Kao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 8, 2021

<u>Notice to Readers</u>

*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 audit such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' 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' report and consolidated financial statements shall prevail.*

## ASPEED TECHNOLOGY INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 2020 AND 2019**
**(In Thousands of New Taiwan Dollars)**

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Note 6) | $ 1,548,713 | 42 | $ 1,421,959 | 42 |
| Financial assets at fair value through profit or loss - current (Note 7) | 352,850 | 10 | 162,941 | 5 |
| Trade receivables, net (Note 8) | 515,341 | 14 | 627,829 | 18 |
| Receivables from related parties, net (Notes 8 and 28) | - | - | 1,018 | - |
| Inventories (Note 9) | 166,062 | 4 | 82,078 | 2 |
| Prepayments and other current assets (Note 15) | 92,218 | 2 | 20,409 | 1 |
| Total current assets | 2,675,184 | 72 | 2,316,234 | 68 |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment (Note 11) | 143,889 | 4 | 123,198 | 4 |
| Right-of-use assets (Note 12) | 89,749 | 3 | 110,675 | 3 |
| Goodwill (Notes 5 and 13) | 369,040 | 10 | 369,040 | 11 |
| Other intangible assets, net (Note 14) | 379,252 | 10 | 442,045 | 13 |
| Deferred tax assets (Note 23) | 40,144 | 1 | 42,919 | 1 |
| Refundable deposits (Note 15) | 10,420 | - | 11,938 | - |
| Other non-current assets (Note 15) | 2,954 | - | 2,845 | - |
| Total non-current assets | 1,035,448 | 28 | 1,102,660 | 32 |
| TOTAL | $ 3,710,632 | 100 | $ 3,418,894 | 100 |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | **Amount** | **%** | **Amount** | **%** |
| CURRENT LIABILITIES | | | | |
| Trade payables (Note 16) | $ 87,414 | 2 | $ 140,791 | 4 |
| Payables to related parties (Note 28) | 13,208 | - | 14,990 | 1 |
| Accrued compensation of employees and remuneration of directors (Note 22) | 121,913 | 3 | 103,501 | 3 |
| Other payables (Note 17) | 54,349 | 2 | 43,397 | 1 |
| Current tax liabilities (Note 23) | 149,615 | 4 | 141,092 | 4 |
| Provisions - current (Note 18) | 32,809 | 1 | 26,571 | 1 |
| Lease liabilities - current (Note 12) | 23,939 | 1 | 23,886 | 1 |
| Other current liabilities (Note 17) | 106,349 | 3 | 142,037 | 4 |
| Total current liabilities | 589,596 | 16 | 636,265 | 19 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred tax liabilities (Note 23) | 49,209 | 1 | 62,135 | 2 |
| Lease liabilities - non-current (Note 12) | 61,702 | 2 | 86,090 | 2 |
| Other non-current liabilities (Note 17) | - | - | 108 | - |
| Provisions - non-current (Note 18) | 6,447 | - | 910 | - |
| Total non-current liabilities | 117,358 | 3 | 149,243 | 4 |
| Total liabilities | 706,954 | 19 | 785,508 | 23 |
| SHAREHOLDERS' EQUITY (Note 20) | | | | |
| Capital | | | | |
| Share capital | 343,200 | 9 | 341,848 | 10 |
| Capital surplus | 1,273,540 | 34 | 1,145,044 | 33 |
| Retained earnings | | | | |
| Legal reserve | 369,858 | 10 | 286,740 | 9 |
| Special reserve | 34,592 | 1 | 31,499 | 1 |
| Unappropriated earnings | 1,028,380 | 28 | 862,848 | 25 |
| Total retained earnings | 1,432,830 | 39 | 1,181,087 | 35 |
| Other equity | (45,892) | (1) | (34,593) | (1) |
| Total equity | 3,003,678 | 81 | 2,633,386 | 77 |
| TOTAL | $ 3,710,632 | 100 | $ 3,418,894 | 100 |

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

# ASPEED TECHNOLOGY INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
## (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Notes 21, 28 and 32) | | | | |
| Sales | $ 3,063,403 | 100 | $ 2,483,373 | 100 |
| Other operating revenue | 149 | - | 922 | - |
| Total operating revenue | 3,063,552 | 100 | 2,484,295 | 100 |
| OPERATING COSTS (Notes 9, 22 and 28) | 1,127,698 | 37 | 913,248 | 37 |
| GROSS PROFIT | 1,935,854 | 63 | 1,571,047 | 63 |
| OPERATING EXPENSES (Note 22) | | | | |
| Selling and marketing expenses | 57,832 | 2 | 62,227 | 3 |
| General and administrative expenses | 130,008 | 4 | 117,580 | 5 |
| Research and development expenses | 477,233 | 16 | 382,851 | 15 |
| Total operating expenses | 665,073 | 22 | 562,658 | 23 |
| INCOME FROM OPERATIONS | 1,270,781 | 41 | 1,008,389 | 40 |
| NON-OPERATING INCOME AND EXPENSES (Note 22) | | | | |
| Interest income | 10,284 | 1 | 14,296 | 1 |
| Other income | 5,339 | - | 2,654 | - |
| Other gains and losses | (55,898) | (2) | (12,908) | (1) |
| Finance costs | (3,458) | - | (1,864) | - |
| Total non-operating income and expenses, net | (43,733) | (1) | 2,178 | - |
| INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS | 1,227,048 | 40 | 1,010,567 | 40 |
| INCOME TAX EXPENSE (Note 23) | 222,359 | 7 | 179,382 | 7 |
| NET INCOME FOR THE YEAR | 1,004,689 | 33 | 831,185 | 33 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translation of the financial statements of foreign operations (Note 20) | (1,995) | - | (1,097) | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 1,002,694 | 33 | $ 830,088 | 33 |

(Continued)

# ASPEED TECHNOLOGY INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| NET INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Company | $ 1,004,689 | 33 | $ 831,185 | 33 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Company | $ 1,002,694 | 33 | $ 830,088 | 33 |
| EARNINGS PER SHARE (Note 25) | | | | |
| Basic | $ 29.38 | | $ 24.39 | |
| Diluted | $ 29.25 | | $ 24.28 | |

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

## ASPEED TECHNOLOGY INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**
**(In Thousands of New Taiwan Dollars, Except Per Share Data)**

| | Share capital - Ordinary Shares | | | Retained Earnings | | | Other Equity | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares (In Thousands) | Amount | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings (Accumulated Deficit) | Employee Unearned Compensation | Exchange Differences on Translation of the Financial Statements of Foreign Operations | Total Equity |
| BALANCE AT JANUARY 1, 2019 | 34,065 | $ 340,656 | $ 1,056,831 | $ 218,148 | $ 10,166 | $ 734,639 | $ (30,375) | $ (1,125) | $ 2,328,940 |
| Appropriations of prior year's earnings | | | | | | | | | |
| Legal reserve | - | - | - | 68,592 | - | (68,592) | - | - | - |
| Special reserve | - | - | - | - | 21,333 | (21,333) | - | - | - |
| Cash dividends to shareholders - NT$18.00 per share | - | - | - | - | - | (613,051) | - | - | (613,051) |
| Net income for the year ended December 31, 2019 | - | - | - | - | - | 831,185 | - | - | 831,185 |
| Other comprehensive income (loss) after tax | - | - | - | - | - | - | - | (1,097) | (1,097) |
| Comprehensive income (loss) for the year ended December 31, 2019 | - | - | - | - | - | 831,185 | - | (1,097) | 830,088 |
| Employee share bonus - Record date: August 2, 2019 | 103 | 1,034 | 73,957 | - | - | - | - | - | 74,991 |
| Issuance of restricted shares under employees share options on September 10, 2019 | 28 | 280 | 21,867 | - | - | - | (22,147) | - | - |
| Cancellation of restricted shares under employees share options on March 11, 2019 and August 5, 2019 | (12) | (122) | (7,611) | - | - | - | 7,733 | - | - |
| Compensation cost of restricted shares for employees | - | - | - | - | - | - | 12,418 | - | 12,418 |
| BALANCE AT DECEMBER 31, 2019 | 34,184 | 341,848 | 1,145,044 | 286,740 | 31,499 | 862,848 | (32,371) | (2,222) | 2,633,386 |
| Appropriations of prior year's earnings | | | | | | | | | |
| Legal reserve | - | - | - | 83,118 | - | (83,118) | - | - | - |
| Special reserve | - | - | - | - | 3,093 | (3,093) | - | - | - |
| Cash dividends to shareholders - NT$22.00 per share | - | - | - | - | - | (752,946) | - | - | (752,946) |
| Net income for the year ended December 31, 2020 | - | - | - | - | - | 1,004,689 | - | - | 1,004,689 |
| Other comprehensive income (loss) after tax | - | - | - | - | - | - | - | (1,995) | (1,995) |
| Comprehensive income (loss) for the year ended December 31, 2020 | - | - | - | - | - | 1,004,689 | - | (1,995) | 1,002,694 |
| Employee share bonus - Record date: August 10, 2020 | 98 | 976 | 91,385 | - | - | - | - | - | 92,361 |
| Issuance of restricted shares under employees share options on February 5, 2020 and March 2, 2020 | 40 | 400 | 38,157 | - | - | - | (38,557) | - | - |
| Cancellation of restricted shares under employees share options on August 3, 2020 | (2) | (24) | (1,046) | - | - | - | 1,070 | - | - |
| Compensation cost of restricted shares for employees | - | - | - | - | - | - | 28,183 | - | 28,183 |
| BALANCE AT DECEMBER 31, 2020 | 34,320 | $ 343,200 | $ 1,273,540 | $ 369,858 | $ 34,592 | $ 1,028,380 | $ (41,675) | $ (4,217) | $ 3,003,678 |

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

# ASPEED TECHNOLOGY INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**
**(In Thousands of New Taiwan Dollars)**

| | 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 1,227,048 | $ 1,010,567 |
| Adjustments for: | | |
| Depreciation expense | 91,765 | 48,879 |
| Amortization expense | 115,647 | 105,393 |
| Net gain on fair value changes of financial assets designated as at fair value through profit or loss | 1,979 | (2,692) |
| Finance costs | 3,458 | 1,864 |
| Interest income | (10,284) | (14,296) |
| Compensation cost of employee restricted shares | 28,183 | 12,418 |
| Loss on disposal of Property, plant and equipment | 98 | 1,643 |
| Gain on disposal of financial assets | (7,740) | (6,282) |
| Write-down (reversal) of inventories | 10,682 | (1,928) |
| Net gain on foreign currency exchange | (35,519) | (37,877) |
| Recognition of provisions | 6,238 | 4,901 |
| Changes in operating assets and liabilities: | | |
| Trade receivables (related parties included) | 97,635 | (239,469) |
| Inventories | (94,666) | 58,691 |
| Other current assets | (75,062) | (3,384) |
| Trade payables (related parties included) | (52,424) | 104,906 |
| Other payables | 11,332 | 7,147 |
| Other current liabilities | (27,339) | 35,176 |
| Payables for compensation of employees and remuneration of directors | 110,773 | 94,127 |
| Other non-current liabilities | (108) | (1,501) |
| Cash generated from operations | 1,401,696 | 1,178,283 |
| Interest paid | (3,458) | (1,864) |
| Income taxes paid | (221,567) | (175,142) |
| Net cash generated from operating activities | 1,176,671 | 1,001,277 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from of financial assets at amortized cost | - | 80,000 |
| Purchase of financial assets at fair value through profit or loss | (251,888) | (180,112) |
| Proceeds from sale of financial assets at fair value through profit or loss | 67,740 | 115,175 |
| Payments for property, plant and equipment | (84,083) | (81,619) |
| Disposal of property, plant and equipment | 61 | - |
| Decrease (increase) in refundable deposits | 1,518 | (4,706) |
| Payments for intangible assets | (52,854) | (36,697) |
| Increase in prepayments for equipment | (2,954) | (2,845) |
| Interest received | 10,586 | 14,227 |
| Net cash used in investing activities | (311,874) | (96,577) |

(Continued)

## ASPEED TECHNOLOGY INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**
**(In Thousands of New Taiwan Dollars)**

| | 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of the principal portion of lease liabilities | $ (23,733) | $ (7,042) |
| Cash dividends | (752,946) | (613,051) |
| Net cash used in financing activities | (776,679) | (620,093) |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES | 38,636 | 44,006 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 126,754 | 328,613 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 1,421,959 | 1,093,346 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 1,548,713 | $ 1,421,959 |

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

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

## 1. GENERAL INFORMATION

ASPEED Technology Inc. (the "Company") has been approved by the Ministry of Economic Affairs for establishment on November 15, 2004. The Company is mainly engaged in the manufacturing of electronic products, wholesale of information software, retail and service industry, international trade, intellectual property, product design, and other industrial and commercial services. The Company's shares have been traded on the Taipei Exchange since April 30, 2013.

The 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 March 8, 2021.

## 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 SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

   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 did not have material impact on the accounting policies of the Company and its subsidiaries (collectively referred to as the "Group").

b. The IFRSs endorsed by the FSC for application starting from 2021

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| 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 |
| Amendment to IFRS 16 "Covid-19-Related Rent Concessions" | June 1, 2020 |

   As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| "Annual Improvements to IFRS Standards 2018-2020" | January 1, 2022 (Note 2) |
| Amendments to IFRS 3 "Reference to the Conceptual Framework" | January 1, 2022 (Note 3) |
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" | To be determined by IASB |
| IFRS 17 "Insurance Contracts" | January 1, 2023 |
| Amendments to IFRS 17 | January 1, 2023 |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" | January 1, 2023 |
| Amendments to IAS 1 "Disclosure of Accounting Policies" | January 1, 2023 (Note 6) |
| Amendments to IAS 8 "Definition of Accounting Estimates" | January 1, 2023 (Note 7) |
| Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use" | January 1, 2022 (Note 4) |
| Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract" | January 1, 2022 (Note 5) |

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

Note 2: The amendments to IFRS 9 will be 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. The amendments to IAS 41 "Agriculture" will be 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" will be 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 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.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

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

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

For the convenience of readers, 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 consolidated financial statements shall prevail.

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 IFRSs as endorsed and issued into effect by the FSC.

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 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.

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 reporting period; 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 reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions 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.

Refer to Note 10 and Note 31 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

f. Foreign currencies

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

At the end of each reporting period, 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 consolidated financial statements, the functional currencies of the Company and its foreign operations (including subsidiaries that use currency different from the currency of the Company) are translated into the presentation currency - the New Taiwan dollar as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; 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 (attributed to the owners of the Company and non-controlling interests as appropriate).

g. Inventories

Inventories consist of work-in-process and finished goods are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

h. Property, plant, and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation.

Depreciation on 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 reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

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

i. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the Group disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

j. 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. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in the estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when such an intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

4) 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.

k. Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an 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 an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

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 asset 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 asset or 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 on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

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

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at 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 and financial assets at amortized cost.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified 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, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 29.

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, trade receivables (including related parties) at amortized cost and other receivables, 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 within 3 months from the date of acquisition, 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 equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables (including related parties)).

The Group always recognizes lifetime expected credit losses (ECLs) for trade receivables. For all other financial instruments, the Group 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 Group 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.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount 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 does not reduce the carrying amount of the financial asset.

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

i. Internal or external information show that the debtor is unlikely to pay its creditors.

c) Derecognition of financial assets

The Group 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 financial 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.

2) Equity instruments

Equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

The repurchase of the Group’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, issue 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 the financial liabilities derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

m. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

1) Warranties

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Group of the expenditures required to settle the Group's obligations.

2) Decommissioning

The Group has the obligation for decommissioning at the end of the useful lives of offices. Pursuant to regulations, the Group estimates the decommissioning costs, which are discounted by applying the effective interest rate and recognized as the carrying amount. The decommissioning costs are capitalized and added to the carrying amount of property, plant and equipment.

The Group recognizes both the increased decommissioning provisions discounted on a time basis and interest expense. The Group regularly reviews the change of decommissioning obligation at each end of the reporting period and adjusts it to reflect the best estimates.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and past experience and other relevant factors.

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

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of multimedia integrated circuits (ICs) and computer peripherals oriented ICs. Sales of multimedia ICs and computer peripherals oriented ICs are recognized as revenue when the ICs are delivered to the customer. Trade receivables are recognized concurrently because it is the time when the customer has full discretion to set the price, use, resell the goods to future customers and bears the risks of obsolescence.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control. There were no materials delivered to subcontractors in 2020.

2) Royalties Revenue

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement and provided that it is probable that the economic benefits will flow to the Group and that the amount of revenue can be measured reliably. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangements.

o. Leasing

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

1) The Group as lessor

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.

When the Group subleases a right-of-use asset, the sublease is classified by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. However, if the head lease is a short-term lease that the Group, as a lessee, has accounted for applying recognition exemption, the sublease is classified as an operating lease.

2) The Group as lessee

The Group 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 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 consolidated 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. 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 Group 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, the Group 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.

p. 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 an expense when employees have rendered services entitling them to the contributions.

q. Restricted shares for employees

The fair value at the grant date of the restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in other equity - unearned employee benefit. It is recognized as an expense in full at the grant date if vesting immediately.

When restricted shares for employees are issued, other equity - unearned employee benefits is recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees. If restricted shares for employees are granted for consideration and should be returned, they are recognized as payables. Dividends paid to employees on restricted shares that do not need to be returned if employees resign in the vesting period are recognized as expenses when the dividends are declared with a corresponding adjustment in capital surplus - restricted shares for employees.

At the end of each reporting period, the Group revises its estimate of the number of restricted shares for employees expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to capital surplus - restricted share option for employees.

r. Taxation

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

1) Current tax

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for 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.

If a temporary difference arises from the initial recognition of assets and liabilities in a transaction that (other than in the acquisition of a subsidiary) affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on any taxable temporary difference arising from the initial recognition of goodwill included in the investment in the subsidiary.

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 Group 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 only recognized 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 the end of each reporting period 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 asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period 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 year which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, management is required to make judgments, estimations, 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 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. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

**Key Sources of Estimation Uncertainty**

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Cash on hand | $ 86 | $ 76 |
| Checking accounts and demand deposits | 1,006,976 | 274,118 |
| Cash equivalents | | |
| Repurchase agreements collateralized by bonds | 541,651 | 331,809 |
| Time deposits with original maturities of less than 3 months | - | 815,956 |
| | $ 1,548,713 | $ 1,421,959 |

The market rate intervals of cash in bank at the end of the reporting period were as follows:

| | December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Bank deposits | 0.01%-0.20% | 0.01%-2.30% |
| Repurchase agreements collateralized by bonds | 0.43% | 2.10% |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Financial assets mandatorily classified as at FVTPL | | |
| Non-derivative financial assets | | |
| Mutual funds | $ 225,625 | $ 30,616 |
| Domestic listed shares | 127,225 | 132,325 |
| | $ 352,850 | $ 162,941 |

## 8. TRADE RECEIVABLES

| | December 31 2020 | December 31 2019 |
|---|---|---|
| Trade receivables | | |
| Non-related parties | $ 515,341 | $ 627,829 |
| Related parties | - | 1,018 |
| | $ 515,341 | $ 628,847 |
| Trade receivables | | |
| At amortized cost | | |
| Gross carrying amount | $ 515,341 | $ 628,847 |
| Less: Allowance for impairment loss | - | - |
| | $ 515,341 | $ 628,847 |

The average credit period of sale of goods was 30-60 days. The Group adopted a policy that is in order to minimize credit risk, the management of the Group regularly reviews credit limits and credit approvals and performs other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before trading with new customers, the Group assesses the potential customer's credit quality and defines credit limits based on the credit rating system. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers.

As for the trade receivables that are overdue at the end of the reporting date but not yet recognized as the allowance for bad debts, the credit quality has not changed significantly; thus, the management of the Group believes that the amount can still be recovered. The Group does not hold any collateral or other credit enhancements to those trade receivables.

The Group applies the simplified approach to provisions for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix approach considering 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 forecast direction of economic conditions at the reporting date. 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 a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables 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 trade receivables based on the Group's provision matrix.

December 31, 2020

| | Gross Carrying Amount | Loss Allowance | Amortized Cost |
|---|---|---|---|
| Not past due | $ 424,780 | $ - | $ 424,780 |
| Past due | | | |
| Within 30 days | 71,774 | - | 71,774 |
| 31-60 days | 18,787 | - | 18,787 |
| 61-90 days | - | - | - |
| 91-180 days | - | - | - |
| | $ 515,341 | $ - | $ 515,341 |

December 31, 2019

| | Gross Carrying Amount | Loss Allowance | Amortized Cost |
|---|---|---|---|
| Not past due | $ 481,267 | $ - | $ 481,267 |
| Past due | | | |
| Within 30 days | 140,311 | - | 140,311 |
| 31-60 days | 7,269 | - | 7,269 |
| 61-90 days | - | - | - |
| 91-180 days | - | - | - |
| | $ 628,847 | $ - | $ 628,847 |

## 9. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Finished goods | $ 165,689 | $ 69,044 |
| Work in progress | 373 | 13,034 |
| | $ 166,062 | $ 82,078 |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2020 and 2019 was $1,127,698 thousand and $913,248 thousand, respectively. The cost of inventories recognized as operating cost were as follows:

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Inventory write-downs (reversed) | $ 10,682 | $ (1,928) |

## 10. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

| Investor | Investee | Nature of Activities | Proportion of Ownership (%) December 31 2020 | Proportion of Ownership (%) December 31 2019 |
|---|---|---|---|---|
| ASPEED Technology Inc. | ASPEED Technology (Samoa) Inc. | Investment holding company | 100 | 100 |
| | ASPEED Technology India Private Limited | R&D and technical services | 1 | 1 |
| | Cupola360 Inc. | Software Design Services | 100 | 100 |
| ASPEED Technology (Samoa) Inc. | ASPEED Technology (U.S.A) Inc. | R&D and technical services | 100 | 100 |
| | ASPEED Technology India Private Limited | R&D and technical services | 99 | 99 |

Remarks:

1) The investment accounted for using the equity method and the calculation of the share of profit or loss and other comprehensive income were recognized based on the financial statements of subsidiaries that have been audited.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | December 31 2020 | December 31 2019 |
|---|---|---|
| Assets used by the Company | $ 143,889 | $ 123,198 |

a. Assets used by the Group

| | Year Ended December 31, 2020 Balance at Beginning of the Year | Additions | Disposals | Reclassification Adjustment | Net Exchange Differences | Balance at End of the Year |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Machinery equipment | $ 26,696 | $ 2,706 | $ (2,576) | $ - | $ - | $ 26,826 |
| Office equipment | 9,855 | 1,806 | (678) | 2,845 | (68) | 13,760 |
| Other equipment | 121,694 | 79,303 | (32,115) | 25,097 | - | 193,979 |
| Construction in progress | 25,097 | - | - | (25,097) | - | - |
| | 183,342 | $ 83,815 | $ (35,369) | $ 2,845 | $ (68) | 234,565 |
| Accumulated depreciation | | | | | | |
| Machinery equipment | 8,936 | $ 6,586 | $ (2,576) | $ - | $ - | 12,946 |
| Office equipment | 3,677 | 2,889 | (519) | - | (46) | 6,001 |
| Other equipment | 47,531 | 56,313 | (32,115) | - | - | 71,729 |
| | 60,144 | $ 65,788 | $ (35,210) | $ - | $ (46) | 90,676 |
| Carrying amount | $ 123,198 | | | | | $ 143,889 |

| | Year Ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of the Year | Additions | Disposals | Net Exchange Differences | Balance at End of the Year |
| Cost | | | | | |
| Machinery equipment | $ 19,463 | $ 7,233 | $ - | $ - | $ 26,696 |
| Office equipment | 6,938 | 2,962 | - | (45) | 9,855 |
| Other equipment | 94,247 | 46,327 | (18,880) | - | 121,694 |
| Construction in progress | - | 25,097 | - | - | 25,097 |
| | 120,648 | $ 81,619 | $ (18,880) | $ (45) | 183,342 |
| Accumulated depreciation | | | | | |
| Machinery equipment | 4,191 | $ 4,745 | $ - | $ - | 8,936 |
| Office equipment | 1,916 | 1,789 | - | (28) | 3,677 |
| Other equipment | 29,700 | 35,068 | (17,237) | - | 47,531 |
| | 35,807 | $ 41,602 | $ (17,237) | $ (28) | 60,144 |
| Carrying amount | $ 84,841 | | | | $ 123,198 |

The above items of property, plant and equipment are depreciated on a straight-line basis over their following estimated useful lives as follows:

| | |
|---|---|
| Machinery equipment | 3-5 years |
| Office equipment | 3-7 years |
| Other equipment | 3-5 years |

## 12. LEASE ARRANGEMENTS

a. Right-of-use assets

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Carrying amount | | |
| Buildings | $ 89,087 | $ 109,131 |
| Transportation equipment | 662 | 1,544 |
| | $ 89,749 | $ 110,675 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Additions to right-of-use assets | $ 5,537 | $ 6,394 |
| Depreciation charge for right-of-use assets | | |
| Buildings | $ 25,095 | $ 6,394 |
| Transportation equipment | 882 | 883 |
| | $ 25,977 | $ 7,277 |

b. Lease liabilities

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Carrying amount | | |
| Current | $ 23,939 | $ 23,886 |
| Non-current | $ 61,702 | $ 86,090 |

Range of discount rate for lease liabilities was as follows:

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Buildings | 2.00% | 2.00% |
| Transportation equipment | 2.50% | 2.50% |

c. Material lease-in activities and terms

The Group leases certain buildings for the use of manufacturing and office with lease terms of 1 to 5 years. The Group doesn't have options to purchase the equipment for a nominal amount at the end of the lease terms. In addition, the Group is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Expenses relating to short-term leases | $ 186 | $ 4,487 |
| Expenses relating to low-value asset leases | $ 178 | $ 165 |
| Total cash outflow for leases | $ (26,080) | $ (12,104) |

The Group's leases of certain office equipment qualify as short-term and low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

## 13. GOODWILL

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Cost | | |
| Balance at the January 1 and December 31 | $ 369,040 | $ 369,040 |

On December 30, 2016, the Group acquired the pilot product line, which was mainly expected to create synergies and benefits to the Group's existing products. When an impairment test is performed, the goodwill is related to the Group and deemed as a single cash-generating unit. Therefore, the impairment of goodwill is assessed by calculating the recoverable amount of the Group and the carrying amount of the net assets.

In addition, according to the asset impairment assessment analysis report issued by the Group, the financial forecast of the Group from 2021 to 2025 is based on the financial analysis according to the following: (a) management's reference to revenue growth rate of historical period, and (b) the difference between actual results and estimates of operating profit in 2020 and 2019, with conservative data as the basis for prediction.

The recoverable amount of the consolidated total cash-generating unit is still greater than the carrying amount, so no impairment loss is recognized.

The Group's recoverable amount is determined on the basis of the value in use, and the cash flow estimate of the financial budget for the next five years is approved by the management of the Group and is calculated using the annual discount rate of 13.91%.

## 14. OTHER INTANGIBLE ASSETS

| | For the Years Ended December 31, 2020 | | | |
|---|---|---|---|---|
| | Balance at Beginning of the Year | Additions | Disposals | Balance at End of the Year |
| Cost | | | | |
| Licenses | $ 164,931 | $ 49,810 | $ (13,635) | $ 201,106 |
| Software | 1,634 | 494 | (287) | 1,841 |
| Client relationship | 145,552 | - | - | 145,552 |
| Existing technology | 359,030 | - | - | 359,030 |
| Trademark | 45,283 | - | - | 45,283 |
| Others | 10,926 | 2,550 | - | 13,476 |
| Carrying amount | 727,356 | $ 52,854 | $ (13,922) | 766,288 |
| Accumulated amortization | | | | |
| Licenses | 52,797 | $ 36,866 | $ (13,635) | 76,082 |
| Software | 964 | 396 | (287) | 1,073 |
| Client relationship | 54,582 | 18,194 | - | 72,776 |
| Existing technology | 153,870 | 51,290 | - | 205,160 |
| Trademark | 19,407 | 6,469 | - | 25,876 |
| Others | 3,691 | 2,432 | - | 6,123 |
| Balance at December 31, 2020 | 285,311 | $ 115,647 | $ (13,922) | 387,036 |
| Carrying amount | $ 442,045 | | | $ 379,252 |

| | For the Years Ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Balance at Beginning of the Year | Additions | Disposals | Balance at End of the Year |
| Cost | | | | |
| Licenses | $ 98,037 | $ 73,667 | $ (6,773) | $ 164,931 |
| Software | 1,212 | 518 | (96) | 1,634 |
| Client relationship | 145,552 | - | - | 145,552 |
| Existing technology | 359,030 | - | - | 359,030 |
| Trademark | 45,283 | - | - | 45,283 |
| Others | 10,476 | 450 | - | 10,926 |
| Carrying amount | 659,590 | $ 74,635 | $ (6,869) | 727,356 |
| Accumulated amortization | | | | |
| Licenses | 32,668 | $ 26,902 | $ (6,773) | 52,797 |
| Software | 642 | 418 | (96) | 964 |
| Client relationship | 36,388 | 18,194 | - | 54,582 |
| Existing technology | 102,581 | 51,289 | - | 153,870 |
| Trademark | 12,938 | 6,469 | - | 19,407 |
| Others | 1,570 | 2,121 | - | 3,691 |
| Balance at December 31, 2019 | 186,787 | $ 105,393 | $ (6,869) | 285,311 |
| Carrying amount | $ 472,803 | | | $ 442,045 |

Intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Licenses | 3-7 years |
| Software | 3-5 years |
| Client relationship | 8 years |
| Existing technology | 7 years |
| Trademark | 7 years |
| Others | 3-5 years |

## 15. OTHER ASSETS

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Current | | |
| Prepayments | $ 89,774 | $ 15,097 |
| Tax refund receivables | 1,264 | 3,165 |
| Overpaid sales tax | 534 | 533 |
| Others | 646 | 1,614 |
| | $ 92,218 | $ 20,409 |

(Continued)

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Non-current | | |
| Refundable deposits | $ 10,420 | $ 11,938 |
| Prepayments for equipment | 2,954 | 2,845 |
| | $ 13,374 | $ 14,783 |

(Concluded)

## 16. TRADE PAYABLES

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Trade payables | | |
| Operating | $ 87,414 | $ 140,791 |

## 17. OTHER PAYABLES

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Current | | |
| Other payables | | |
| Payables for salaries or bonuses | $ 31,208 | $ 26,834 |
| Payables for services | 5,638 | 4,998 |
| Payables for royalties | 4,198 | 4,468 |
| Payables for sales tax | 3,665 | - |
| Payables for employee welfare | 2,835 | 417 |
| Others | 6,805 | 6,680 |
| | $ 54,349 | $ 43,397 |
| Other liabilities | | |
| Refund liabilities | $ 105,185 | $ 141,015 |
| Receipts under custody | 1,060 | 1,022 |
| Others | 104 | - |
| | $ 106,349 | $ 142,037 |
| Non-current | | |
| Other non-current liabilities | | |
| Payables for salaries or bonuses | $ - | $ 108 |

## 18. PROVISIONS

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Current | | |
| Warranties (a) | $ 32,809 | $ 26,571 |
| Non-current | | |
| Decommissioning (b) | $ 6,447 | $ 910 |

| | Warranties | Decommissioning |
|---|---|---|
| Balance at January 1, 2020 | $ 26,571 | $ 910 |
| Additional provisions recognized | 6,238 | 5,537 |
| Balance at December 31, 2020 | $ 32,809 | $ 6,447 |

a. The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

b. The provision for decommissioning represents the Company's obligation to decommission (including the restoration of the office). The costs are estimated based on internal research, and the Company regularly reviews and adjusts it to reflect the best estimates.

## 19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is deemed a defined contribution plan. Pursuant to the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

ASPEED Technology (U.S.A.) Inc. and ASPEED Technology India Private Limited contribute a specified percentage of employees' monthly payroll costs to the retirement benefit scheme.

The total expenses recognized in the consolidated statement of comprehensive income were $5,777 thousand and $5,024 thousand, representing the contributions made and to be made to these plans by the Company at the rates specified in the plans for the years ended December 31, 2020 and 2019, respectively.

## 20. EQUITY

a. Share capital

Ordinary shares

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Number of shares authorized (in thousands of shares) | 50,000 | 50,000 |
| Shares authorized par value $10 (in thousands of NTD) | $ 500,000 | $ 500,000 |
| Number of shares issued and fully paid (in thousands of shares) | 34,320 | 34,184 |
| Shares issued and fully paid (in thousands of NTD) | $ 343,200 | $ 341,848 |

Ordinary shares issued and fully paid have a par value of NT$10. Each share has one voting right and the right to receive dividends.

For the Group's acquisition of Emulex Corporation's server remote management chip pilot product line and related assets and for follow-up strategic cooperation plan, the Company held an extraordinary shareholders' meeting on December 23, 2016 and issued 2,022 thousand shares through a private placement in accordance with Article 43-6 of the Securities Exchange Act. The price of private placement per share was NT$297.6. The total private placement price was NT$601,747 thousand, and the capital increase base date was December 30, 2016.

b. Capital surplus

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (a) | | |
| Issuance of ordinary shares | $ 793,019 | $ 793,019 |
| May be used to offset a deficit only | | |
| Employee share bonus | 359,737 | 268,353 |
| From expired/vested employee restricted shares | 38,409 | 29,936 |
| From exercised/expired employee share options | 2,156 | 2,156 |
| May not be used for any purpose | | |
| Employee restricted shares | 80,219 | 51,580 |
| | $ 1,273,540 | $ 1,145,044 |

a) The 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).

c. Retained earnings and dividend policy

The shareholders of the Company held their regular meeting on May 29, 2019 and in that meeting, resolved the amendments to the Company's Articles of Incorporation (the "Articles"). The amendments explicitly stipulate that the Corporation may allocate a portion or all of its reserves for distribution in accordance with relevant laws or regulations or the orders of the authorities in charge. When the reserves are to be distributed in cash, the distribution may be approved by the board of directors and reported to the shareholders' meeting.

Under the dividends policy as set forth in the Articles after the amendments, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then 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 distribution bonuses to shareholders.

For the policies on the distribution of compensation of employees and remuneration of directors and supervisors after the amendment, refer to compensation of employees and remuneration of directors and supervisors in Note 23(f).

The Company's Articles stipulate the dividends policy based on present and future projects, investment environment, capital requirements, domestic and international competitive environment, and the interests of shareholders, whereby the Company distributes no less than 10% of the distributable earnings in the form of dividend bonus. If the accumulatively distributable earnings were less than 50% of the Company's paid-in capital, the dividend bonus would not distributed. In principle, cash dividends are limited to no less than 10% of the total dividends distributed.

The appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset any deficit. 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.

Items referred to under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2019 and 2018 approved in the shareholders' meetings on May 19, 2020 and May 29, 2019, respectively, were as follows:

| | **Appropriation of Earnings For the Year Ended December 31** | |
|---|---|---|
| | **2019** | **2018** |
| Legal reserve | $ 83,118 | $ 68,592 |
| Special reserve | $ 3,093 | $ 21,333 |
| Cash dividends | $ 752,946 | $ 613,051 |
| Cash dividends per share (NT$) | $ 22.00 | $ 18.00 |

The appropriation of earnings for 2020 has been proposed by the Company's board of directors on March 8, 2021. The appropriation and dividends per share were as follows:

| | For the Year Ended December 31, 2020 |
|---|---|
| Legal reserve | $ 110,470 |
| Special reserve | $ 11,299 |
| Cash dividends | $ 892,204 |
| Cash dividends per share (NT$) | $ 26.00 |

d. Special reserve

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Balance at January 1 | $ 31,499 | $ 10,166 |
| Appropriation (reversal) | | |
| Debits (reversal of debits) to other equity items | 3,093 | 21,333 |
| Balance at December 31 | $ 34,592 | $ 31,499 |

e. Other equity items

1) Unearned employee benefits

For information about the restricted share plans for employees, refer to Note 26.

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Balance at January 1 | $ (32,371) | $ (30,375) |
| Issued | (38,557) | (22,147) |
| Cancelled | 1,070 | 7,733 |
| Share-based payment expenses recognized | 28,183 | 12,418 |
| Balance at December 31 | $ (41,675) | $ (32,371) |

2) Exchange differences on translation of the financial statements of foreign operations

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Balance at January 1 | $ (2,222) | $ (1,125) |
| Exchange differences on translation of the financial statements of foreign operations | (1,995) | (1,097) |
| Balance at December 31 | $ (4,217) | $ (2,222) |

## 21. REVENUE

a. Revenue from contracts with customers

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Revenue from the sale of goods | $ 3,063,403 | $ 2,483,373 |
| Royalty income | 149 | 922 |
| | $ 3,063,552 | $ 2,484,295 |

b. Contract balances

| | December 31, 2020 | December 31, 2019 | January 1, 2019 |
|---|---|---|---|
| Trade receivables (Note 9) | $ 515,341 | $ 628,847 | $ 400,900 |
| Contract liabilities | | | |
| Sale of goods | $ - | $ - | $ 157 |

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

c. Disaggregation of revenue

For the year ended December 31, 2020

| | Reportable Segments | | | |
|---|---|---|---|---|
| | Multimedia Integrated Circuits (ICs) | Computer Peripherals Oriented ICs | Others | Total |
| Type of goods or services | | | | |
| Sale of goods | $ 2,900,494 | $ 155,963 | $ 6,946 | $ 3,063,403 |
| Royalty | - | - | 149 | 149 |
| | $ 2,900,494 | $ 155,963 | $ 7,095 | $ 3,063,552 |

For the year ended December 31, 2019

| | Reportable Segments | | | |
|---|---|---|---|---|
| | Multimedia Integrated Circuits (ICs) | Computer Peripherals Oriented ICs | Others | Total |
| Type of goods or services | | | | |
| Sale of goods | $ 2,327,708 | $ 155,337 | $ 328 | $ 2,483,373 |
| Royalty | - | - | 922 | 922 |
| | $ 2,327,708 | $ 155,337 | $ 1,250 | $ 2,484,295 |

## 22. NET PROFIT FROM CONTINUING OPERATIONS

a. Interest income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Interest income | | |
| Bank deposits | $ 2,330 | $ 6,116 |
| Repurchase agreements collateralized by bonds | 5,684 | 7,997 |
| Financial asset or financial liability at fair value through profit | 2,186 | - |
| Others | 84 | 183 |
| | $ 10,284 | $ 14,296 |

b. Other income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Others | $ 5,339 | $ 2,654 |

c. Other gains and losses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Net foreign exchange (losses) gains | $ (61,503) | $ (20,021) |
| Gain (loss) on disposal of investment properties | 7,740 | 6,282 |
| Net gain on fair value changes of financial assets through profit or loss | (1,979) | 2,692 |
| Loss on disposal of property, plant and equipment | (98) | (1,643) |
| Others | (58) | (218) |
| | $ (55,898) | $ (12,908) |

d. Finance costs

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Interest on loans | $ 1,475 | $ 1,454 |
| Interest on lease liabilities | 1,983 | 410 |
| | $ 3,458 | $ 1,864 |

e. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| An analysis of depreciation by function | | |
| Operating costs | $ - | $ - |
| Operating expenses | 91,765 | 48,879 |
| | $ 91,765 | $ 48,879 |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| An analysis of amortization by function | | |
| Operating costs | $ - | $ - |
| Selling and marketing expenses | 18,194 | 18,194 |
| General and administration expenses | 6,772 | 6,777 |
| Research and development expenses | 90,681 | 80,422 |
| | $ 115,647 | $ 105,393 |

(Concluded)

f. Employee benefits expense

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Post-employment benefits (Note 20) | | |
| Defined contribution plans | $ 5,777 | $ 5,024 |
| Share-based payments (Note 26) | 28,183 | 12,418 |
| Other employee benefits | 338,746 | 308,496 |
| Total employee benefits expense | $ 372,706 | $ 325,938 |
| An analysis of employee benefits expense by function | | |
| Operating costs | $ - | $ - |
| Operating expenses | 372,706 | 325,938 |
| | $ 372,706 | $ 325,938 |

g. Compensation of employees and remuneration of directors

The Company accrued compensation of employees and remuneration of directors and supervisors at rates of no less than 8% and no higher than 3%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors and supervisors. The compensation of employees and remuneration of directors and supervisors for the years ended December 31, 2020 and 2019, which have been approved by the Company's board of directors on March 8, 2021 and March 2, 2020, respectively, were as follows:

Accrual rate

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Compensation of employees | 8% | 8% |
| Remuneration of directors and supervisors | 1% | 1% |

Amount

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Cash | Shares | Cash | Shares |
| Compensation of employees | $ - | $ 108,367 | $ - | $ 92,361 |
| Remuneration of directors and supervisors | 13,546 | - | 11,140 | - |

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

The number of shares of the compensation of employees, which was determined by dividing the amount of the compensation of employees resolved for 2020 and 2019 by the closing price per share of NT$1,800 and NT$946, respectively, which is the closing price per share determined on the day immediately preceding the meeting of the Company's board of directors, was 60 thousand shares and 98 thousand shares for 2020 and 2019, respectively.

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

Information on the compensation of employees 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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Foreign exchange gains | $ 16,222 | $ 25,589 |
| Foreign exchange losses | (77,725) | (45,610) |
| | $ (61,503) | $ (20,021) |

## 23. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of income tax expense recognized in profit or loss

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Current tax | | |
| In respect of the current year | $ 239,085 | $ 203,129 |
| Adjustments for prior years | (6,575) | (668) |
| | 232,510 | 202,461 |
| Deferred tax | | |
| In respect of the current year | (10,151) | (23,079) |
| Effect of tax rate changes | - | - |
| Income tax expense recognized in profit or loss | $ 222,359 | $ 179,382 |

A reconciliation of accounting loss and income tax expense was as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Income before tax from continuing operations | $ 1,227,048 | $ 1,010,567 |
| Income tax expense calculated at the statutory rate | $ 248,940 | $ 205,299 |
| Non-deductible expenses in determining taxable income | (2,421) | (2,031) |
| Deductible temporary differences | (2,081) | (2,931) |
| Additional income tax under the Alternative Minimum Tax Act | 24 | 25 |
| Investment credits | (15,528) | (20,312) |
| Adjustments for prior years' tax | (6,575) | (668) |
| Income tax expense recognized in profit or loss | $ 222,359 | $ 179,382 |

b. Current tax liabilities

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Current tax liabilities | | |
| Income tax payable | $ 149,615 | $ 141,092 |

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2020

| | Opening Balance | Recognized in Profit or Loss | Closing Balance |
|---|---|---|---|
| Deferred Tax Assets | | | |
| Temporary differences | | | |
| Inventory write-down | $ 188 | $ 1,625 | $ 1,813 |
| Investments accounted for using the equity method | 3,867 | (515) | 3,352 |
| Depreciation of decommissioning right-of-use assets | - | 258 | 258 |
| Provisions | 5,314 | 1,248 | 6,562 |
| Refund liabilities | 28,203 | (7,166) | 21,037 |
| Estimated expense payable and others | 5,347 | 1,775 | 7,122 |
| | $ 42,919 | $ (2,775) | $ 40,144 |
| Deferred Tax Liabilities | | | |
| Temporary differences | | | |
| Unrealized net foreign exchange gains | $ 2,909 | $ 971 | $ 3,880 |
| Other intangible assets - acquisitions | 59,226 | (13,897) | 45,329 |
| | $ 62,135 | $ (12,926) | $ 49,209 |

For the year ended December 31, 2019

| | Opening Balance | Recognized in Profit or Loss | Closing Balance |
|---|---|---|---|
| Deferred Tax Assets | | | |
| Temporary differences | | | |
| Inventory write-down | $ 1,020 | $ (832) | $ 188 |
| Investments accounted for using the equity method | 4,950 | (1,083) | 3,867 |
| Provisions | 4,334 | 980 | 5,314 |
| Refund liabilities | 21,598 | 6,605 | 28,203 |
| Estimated expense payable and others | 3,798 | 1,549 | 5,347 |
| | $ 35,700 | $ 7,219 | $ 42,919 |
| Deferred Tax Liabilities | | | |
| Temporary differences | | | |
| Unrealized net foreign exchange gains | $ 4,721 | $ (1,812) | $ 2,909 |
| Other intangible assets - acquisitions | 73,123 | (13,897) | 59,226 |
| | $ 77,844 | $ (15,709) | $ 62,135 |

d. Income tax assessments

The Company's tax returns through 2017 have been assessed by the tax authorities.

## 24. EARNINGS PER SHARE

**Unit: NT$ Per Share**

| | For the Year Ended December 31 2020 | 2019 |
|---|---|---|
| Basic earnings per share | $ 29.38 | $ 24.39 |
| Diluted earnings per share | $ 29.25 | $ 24.28 |

The income and weighted average number of ordinary shares outstanding in the computation of earnings per share from continuing operations were as follows:

**Net Income for the Year**

| | For the Year Ended December 31 2020 | 2019 |
|---|---|---|
| Income for the year attributable to owners of the Company | $ 1,004,689 | $ 831,185 |

Weighted average number of ordinary shares outstanding (in thousand shares):

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Weighted average number of ordinary shares in computation of basic earnings per share | 34,192 | 34,075 |
| Effect of potentially dilutive ordinary shares: | | |
| Compensation of employees | 79 | 116 |
| Restricted shares to employees | 74 | 48 |
| Weighted average number of ordinary shares in computation of diluted earnings per share | 34,345 | 34,239 |

The Group may settle the compensation in cash or shares; therefore, the Group assumes that the entire amount of the compensation will 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, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 25. SHARE-BASED PAYMENT ARRANGEMENTS

a. Restricted share plan for employees

Information on restricted share plan for employees was as follows:

| Approved Date | Grant Shares (Thousand) | Board of Directors Approved Issue Date | Issued Date | Issued Shares (Thousand) | Fair Value |
|---|---|---|---|---|---|
| 2016/06/29 | 100 | 2016/11/04 | 2016/12/05 | 30 | 446 |
| 2017/05/26 | 100 | 2017/11/03 | 2018/02/05 | 36 | 740 |
| 2018/05/30 | 40 | 2018/11/05 | 2018/11/12 | 21 | 481 |
| 2019/05/29 | 100 | 2019/08/02 | 2019/09/10 | 28 | 791 |
| 2019/05/29 | 100 | 2019/08/02 | 2020/02/05 | 31 | 952 |
| 2019/05/29 | 100 | 2019/08/02 | 2020/03/02 | 9 | 1,005 |

On May 29, 2019, the shareholder's meeting resolved to issue a restricted share plan for employees with a total of 100 thousand shares. The Company shall set up the actual issuance date(s) in one tranche or in installments within one year from the date of receipt of the effective registration of the competent authority. The board of directors authorized the Company's chairman to determine the issue date. The main elements of the restricted share plan for employees were as follows:

1) Issue price: the Company issued the gratuitous restricted shares for employees.

2) Vesting conditions of restricted shares for employees are as follows:

   a) To meet the vesting conditions, an employee has to meet performance and other conditions over the vesting period, as follows:

      Remain employed by the Company within 1 year - 10% of restricted shares will be vested;

      Remain employed by the Company within 2 year - 10% of restricted shares will be vested;

Remain employed by the Company within 3 year - 40% of restricted shares will be vested;

Remain employed by the Company within 4 year - 40% of restricted shares will be vested;

b) When the employees do not reach the vesting conditions, the Company will recover and cancel the shares.

c) During the vesting period, the dividends will distribute to employees gratuitously.

3) In addition to the vesting conditions, the limitations are as follows:

a) The employees cannot sell, pledge, transfer, donate or, in any other way, dispose of these shares.

b) During the vesting period, the rights of attending shareholders' meeting, proposal, speech, resolution and voting right, etc., will enforce by trust institutions.

Information on restricted share plan for employees was as follows:

| | Number of Shares (In Thousands) For the Year Ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Balance at January 1 | 78 | 78 |
| Granted | 40 | 28 |
| Vested | (16) | (16) |
| Cancelled | (12) | (12) |
| Balance at December 31 | 100 | 78 |

For the years ended December 31, 2020 and 2019, the compensation costs recognized were NT$28,183 thousand and NT$12,418 thousand, respectively.

## 26. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to operate under the premises of going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity attributable to owners of the Group (comprising issued capital, reserves, retained earnings and other equity).

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

Key management personnel of the Group review the capital structure on a regular basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. 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 considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

b. Fair value of financial instruments measured at fair value

1) Fair value hierarchy

December 31, 2020

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Mutual funds | $ 225,625 | $ - | $ - | $ 225,625 |
| Domestic listed shares | 127,225 | - | - | 127,225 |
| | $ 352,850 | $ - | $ - | $ 352,850 |

December 31, 2019

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Domestic listed shares | $ 132,325 | $ - | $ - | $ 132,325 |
| Mutual funds | 30,616 | - | - | 30,616 |
| | $ 162,941 | $ - | $ - | $ 162,941 |

There were no transfers between Level 1 and Level 2 in the current and prior periods.

c. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Financial assets | | |
| Financial assets at amortized cost (1) | $ 2,075,120 | $ 2,064,354 |
| Financial assets at FVTPL | 352,850 | 162,941 |
| Financial liabilities | | |
| Measured at amortized cost (2) | 120,333 | 170,445 |

1) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, trade and other receivables (including related parties), financial assets at amortized cost and refundable deposits.

2) The balances include financial liabilities measured at amortized cost, which comprise trade payables (including related parties) and other payables.

d. Financial risk management objectives and policies

The Group's major financial instruments include mutual investments, trade receivables and trade payables. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

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

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Approximately 100% of the Group's sales were denominated in currencies other than the functional currency, whilst almost 99% of costs were denominated in the functional currency of the entity in the Group.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 30.

Sensitivity analysis

The Group was mainly exposed to the USD.

The following table details the Group's sensitivity to a 5% increase and decrease in the New Taiwan dollar (i.e., the functional currency) against the relevant foreign currencies. The sensitivity rate 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 is 5%. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with the New Taiwan dollar strengthening 5% against the relevant currency. For a 5% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit, and the balances below would be negative.

| | **USD Impact** | |
|---|---|---|
| | **For the Year Ended December 31** | |
| | **2020** | **2019** |
| Pre-tax profit | $ 71,335 | $ 39,667 |

This was mainly attributable to the exposure on outstanding receivables and payables in USD which were not hedged at the end of the reporting period.

The Group's sensitivity to USD currency decreased during the current period mainly due to the decrease in the net assets of the USD which was due to the decrease in cash and cash equivalents denominated in USD.

The management believes that the sensitivity analysis cannot represent the inherent risk of the exchange rate, because the foreign currency risk at the end of the reporting period cannot reflect the mid-year risk situation.

b) Interest rate risk

Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Fair value interest rate risk | | |
| Financial assets | $ 541,651 | $ 1,147,765 |
| Cash flow interest rate risk | | |
| Financial assets | 1,006,976 | 274,119 |

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 end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the reporting period was outstanding for the whole year.

A 0.1 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Group had no floating rate liabilities for the years ended December 31, 2020 and 2019.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. 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 risk management committee annually.

Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

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. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2020 and 2019, the Group had available unutilized short-term bank loan facilities of $650,000 thousand.

a) Liquidity and interest risk rate table for non-derivative financial liabilities

The Group's remaining contractual maturity for its non-derivative financial liabilities had been drawn up based on the undiscounted cash flows (included principal and interest) of financial liabilities from the earliest date on which the Group can be required to pay.

December 31, 2020

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | 5+ Years | Total |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | |
| Lease liabilities | $ 2,137 | $ 4,271 | $ 19,026 | $ 63,369 | $ - | $ 88,803 |
| Non-interest bearing | | | | | | |
| Trade payables (including related parties) | 77,867 | 22,755 | - | - | - | 100,622 |
| Other payables | 13,916 | 1,234 | 4,569 | - | - | 19,719 |
| | $ 93,920 | $ 28,260 | $ 23,595 | $ 63,369 | $ - | $ 209,144 |

Additional information about the maturity analysis for lease liabilities:

| | Less than 1 Year | 1-5 Years | 5-10 Years | 10-15 Years | 15-20 Years | 20+ Years |
|---|---|---|---|---|---|---|
| Lease liabilities | $ 25,434 | $ 63,369 | $ - | $ - | $ - | $ - |

December 31, 2019

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | 5+ Years | Total |
|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | |
| Lease liabilities | $ 2,177 | $ 4,353 | $ 19,342 | $ 89,264 | $ - | $ 115,136 |
| Non-interest bearing | | | | | | |
| Trade payables (including related parties) | 85,875 | 69,906 | - | - | - | 155,781 |
| Other payables | 9,848 | 2,585 | 2,244 | - | - | 14,677 |
| | $ 97,900 | $ 76,844 | $ 21,586 | $ 89,264 | $ - | $ 285,594 |

Additional information about the maturity analysis for lease liabilities:

| | Less than 1 Year | 1-5 Years | 5-10 Years | 10-15 Years | 15-20 Years | 20+ Years |
|---|---|---|---|---|---|---|
| Lease liabilities | $ 25,872 | $ 89,264 | $ - | $ - | $ - | $ - |

b) Financing facilities:

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Unsecured borrowings facilities | | |
| Amount unused | $ 650,000 | $ 650,000 |

## 28. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions 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. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below:

a. Related parties and their relationships associated with the Group:

| Related Parties | Relationship with the Group |
|---|---|
| ATEN International Co., Ltd. | Investor with significant influence over the Group (non-related party since April 1, 2020) |
| Avago Technologies International Sales PTE. Limited | Investor with significant influence over the Group (non-related party since February 26, 2021) |

b. Operating revenue

| Related Party Category | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Investor with significant influence over the Group | $ 1,459 | $ 7,824 |

The sales of the related parties are determined according to the agreed terms of both parties, and the collection conditions are equivalent to the general trading conditions.

c. Purchases

| Related Party Name | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Avago Technologies International Sales PTE. Limited | $ 214,545 | $ 103,236 |

The purchase of the related party is determined according to the agreed terms of the two parties, and there is no other suitable trading object to compare.

d. Production overheads

| Related Party Category | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Investor with significant influence over the Group | $ 1,119 | $ - |

e. Receivables from related parties

| Related Party Category | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Investor with significant influence over the Group | $ - | $ 1,018 |

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2020 and 2019, no impairment loss was recognized for trade receivables from related parties.

f. Payables to related parties

| Related Party Name | December 31 2020 | December 31 2019 |
|---|---|---|
| Avago Technologies International Sales PTE. Limited | $ 13,208 | $ 14,990 |

The outstanding trade payables from related parties are unsecured. The transaction price was based on the market price and is determined by both parties.

g. Compensation of key management personnel

The total amount of payroll to directors and supervisors and other key executives in 2020 and 2019 were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Short-term benefits | $ 30,636 | $ 27,483 |
| Post-employment benefits | 324 | 324 |
| Share-based payments | 4,091 | 2,774 |
| | $ 35,051 | $ 30,581 |

The remuneration of key executives was determined by the remuneration committee based on the performance of individuals and market trends.

## 29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2020 and 2019 were as follows:

Under the agreement, the Group shall pay royalties at a percentage of the sales volume of certain products. For the years ended December 31, 2020 and 2019, royalty expense amounted to $14,166 thousand and $15,555 thousand, respectively.

## 30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2020

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 57,737 | 28.48 | $ 1,644,350 |
| Non-monetary items | | | |
| Financial assets at FVTPL | | | |
| USD | 3,069 | 28.48 | 87,407 |

(Continued)

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial liabilities | | | |
| Monetary items | | | |
| USD | $ 7,642 | 28.48 | $ 217,644 |
| | | | (Concluded) |

December 31, 2019

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 36,755 | 29.98 | $ 1,101,915 |
| Non-monetary items | | | |
| Financial assets at FVTPL | | | |
| USD | 1,021 | 29.98 | 30,610 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 10,293 | 29.98 | 308,584 |

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

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| Foreign Currencies | Exchange Rate | Net Foreign Exchange Gains (Losses) | Exchange Rate | Net Foreign Exchange Gains (Losses) |
| USD | 28.48 (USD:NTD) | $ 19,401 | 29.98 (USD:NTD) | $ 14,545 |

## 31. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions and information on investees:

1) Financing provided to others: None

2) Endorsements/guarantees provided: None

3) Marketable securities held:

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2020 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of Shares (In Thousands) | Carrying Amount (In Thousands) | Percentage of Ownership (%) | Fair Value (In Thousands) | |
| ASPEED Technology Inc. | Shares - Shin Kong Financial Holding Co., Ltd. Preference Shares A | - | Financial assets at FVTPL - current | 1,500 | $ 65,625 | 2.0 | $ 65,625 | Note |
| | Shares - CTBC Financial Holding Co., Ltd. Preference Shares C | - | Financial assets at FVTPL - current | 1,000 | 61,600 | 0.6 | 61,600 | Note |
| | Shares -Yuanta Taiwan High-yield Leading Company Fund-TWD (A) No Dividend | - | Financial assets at FVTPL - current | 181 | 2,277 | - | 2,277 | Note |
| | Shares -Fuh Hwa US S&P 500 Low Volatility Index Fund | - | Financial assets at FVTPL - current | 6,000 | 56,520 | - | 56,520 | Note |
| | Shares -Fuhua Ruihua Fund | - | Financial assets at FVTPL - current | 4,827 | 50,043 | - | 50,043 | Note |
| | Funds - Allianz Global Investors Fund - Allianz Flexi Asia Bond AT USD | - | Financial assets at FVTPL - current | 85 | 30,244 | - | 30,244 | Note |
| | Shares -Allianz Multi-Credit Bond Fund-AT Accumulated Shares (USD) | - | Financial assets at FVTPL - current | 90 | 28,454 | - | 28,454 | Note |
| | Shares - JPMorgan Global Bond Yield USD Cumulative USD | - | Financial assets at FVTPL - current | 8 | 28,709 | - | 28,709 | Note |
| | Shares - ETF-0050 Yuanta Taiwan 50 | - | Financial assets at FVTPL - current | 240 | 29,378 | - | 29,378 | Note |

Note: The value is calculated by net value on December 31, 2020.

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None

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: (Table 1)

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) Intercompany relationships and significant intercompany transactions (Table 2)

11) Information on investees:

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount (In thousands) December 31 | | As of December 31, 2020 | | | Net Income (Loss) of the Investee (In Thousands) | Share of Profits (Loss) (In Thousands) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2020 | 2019 | Number of Shares (In Thousands) | % | Carrying Amount (In Thousands) | | | |
| ASPEED Technology Inc. | ASPEED Technology (Samoa) Inc. | Samoa | Investment holding company | $ 48,763 | $ 48,763 | 1,550 | 100 | $ 34,004 | $ 4,805 | $ 4,805 | - |
| | ASPEED Technology India Private Limited | India | R&D and technical services | 166 | 166 | 35 | 1 | 1 | (856) | (8) | - |
| | Cupola360 Inc. | Taiwan | Software Design Services | 15,000 | 15,000 | 1,500 | 100 | 8,852 | (2,221) | (2,221) | - |
| ASPEED Technology (Samoa) Inc. | ASPEED Technology (U.S.A) Inc. | U.S.A. | R&D and technical services | 31,460 | 31,460 | 1,000 | 100 | 23,975 | 5,690 | 5,690 | - |
| | ASPEED Technology India Private Limited | India | R&D and technical services | 16,068 | 16,068 | 3,465 | 99 | 9,545 | (856) | (848) | - |

c. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, shareholding ratio, investment gains or losses, carrying amount of the investment at the end of the period, repatriations investment gains or losses, and limit on the amount of investment in the mainland China area: None

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: None.

   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 the 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 end of period balance, the interest rate range, and total current period interest with respect to 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. Information of major shareholders: list all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder

| | **Shares** | |
|---|---|---|
| **Name of Major Shareholder** | **Number of Shares** | **Percentage of Ownership (%)** |
| Fenghua Investment Co., Ltd. | 4,775,524 | 13.91 |
| China Trust Commercial Bank is entrusted with the safekeeping of the investment account of Avago Technology International Marketing Pte. Ltd. | 2,022,000 | 5.89 |

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preference shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

## 32. SEGMENT INFORMATION

The Group is considered as a single operating segment. Profit and loss, assets and liabilities are measured on the same basis as the basis for the preparation of the consolidated financial statements. For relevant operating information, refer to the consolidated financial statements.

a. Major revenue of products and services

The following was an analysis of the Group's major revenue by products and services from continuing operations by reportable segments.

| | For the Year Ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Multimedia Integrated Circuits (ICs) | $ 2,900,494 | $ 2,327,708 |
| Computer Peripherals Oriented ICs | 155,963 | 155,537 |
| Other | 7,095 | 1,250 |
| | $ 3,063,552 | $ 2,484,295 |

b. Geographical information

The Group's net operating revenue from external customers by location of customer and information about its non-current assets by location are detailed below.

| | Revenue from External Customers For the Year Ended December 31 | | Non-current Assets December 31 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Taiwan | $ 1,416,487 | $ 985,081 | $ 976,310 | $ 1,035,310 |
| China | 1,149,189 | 1,086,059 | - | - |
| U.S.A. | 300,815 | 245,539 | 8,574 | 12,308 |
| Others | 197,061 | 167,616 | - | 185 |
| | $ 3,063,552 | $ 2,484,295 | $ 984,884 | $ 1,047,803 |

Non-current assets exclude financial instruments and deferred tax assets.

c. Information about major customers

Single customers who contributed 10% or more to the Group's revenue were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Customer A | $ 589,510 | $ 537,116 |
| Customer B | 530,927 | 368,222 |
| Customer C | 335,624 | 253,925 |

TABLE 1

## ASPEED TECHNOLOGY INC. AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2020**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Trades Receivable (Payable) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchases/ Sales | Amount | % of Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total |
| ASPEED Technology Inc. | Avago Technologies International Sales PTE. Limited | Investor with significant influence over the group | Purchases | $ 214,545 | 18.24 | Payment shall be made within 30 days after inspection and acceptance | No major differences | No major differences | $ 13,208 | 13.13 |

# ASPEED TECHNOLOGY INC. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**
**FOR THE YEAR ENDED DECEMBER 31, 2020**
**(In Thousands of New Taiwan Dollars)**

| No. | Investee Company | Counterparty | Relationship (Note 1) | Transactions Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Accounts | Amount | Payment Terms | % of Total Sales or Assets |
| 0 | The Company | ASPEED Technology (U.S.A.) Inc. | 1 | Other payables | $ 8,447 | Note 2 | 0.2 |
| | | | | Technical services expense | 80,986 | Note 2 | 2.6 |

Note 1: No.1 represents the transactions from parent company to subsidiary.

Note 2: Payment terms are determined according to the agreed terms of the two parties.