

# **CASwell, Inc.**

## **Financial Statements and Independent Auditors' Report**

**2020/2019**

**Company Address: F8, No.242, Bo'ai Street, Shulin District, New Taipei City**

**Tel: 02-77058888**

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## **Independent Auditors' Report**

To the Board of Directors of CASwell, Inc.:

### **Audit opinions**

We have audited the balance sheets of CASwell, Inc. as at December 31, 2020 and 2019, and related statements of comprehensive income, of changes in equity and of cash flows for the period from January 1, 2019 to 31 December, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinions, the financial reports mentioned above have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers in all material aspects, and are considered to have reasonably show financial conditions of CASwell, Inc. as of December 31, 2010 and 2019, as well as the financial performance and cash flows of CASwell, Inc. from January 1 to December 31, 2020 and 2019.

### **Basis for audit opinions**

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of CASwell, Inc. in accordance with the Norm of Professional Ethics for Certified Public Accountant ("the Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of CASwell, Inc. for 2020. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinions thereon, we do not provide separate opinions on these matters. Key audit matters for the company's financial statements of the current period are stated as follows:

#### **1. Inventory valuation**

Please refer to Note IV (VII) to the financial statements for the accounting policy regarding the inventory valuation. Please refer to Note V (I) to the financial statements for the uncertainties of accounting estimates and assumptions regarding the realizability of inventory assessment. Please refer to Note VI (IV) to the financial statement for an explanation of the inventory valuation.

Notes on key audit matters:

Inventory amount of CASwell, Inc. is presented in the financial statements as costs or net realisable value whichever is lower. Due to rapid changes of sciences and technologies, new product launch might cause changes in consumer demands and significant fluctuations in sales of related products, so the costs of inventories might exceed their net realisable value. Losses of obsolete and slow-moving inventories shall be separately evaluated dependent upon inventory classification and how many days the inventories have become obsolete. The presentation of such inventories involves subjective judgment, so inventory valuation was one of our important audit matters particularly audited for the financial statements of CASwell, Inc.

Audit processes:

The main audit processes we adopted for the above key audit matters included performing inventory valuation to evaluate if CASwell, Inc. had presented its inventories based on the predetermined policies for presenting write-downs of inventories; auditing basis of selling prices and net realisable value adopted by the management, in order to verify appropriateness of the estimated writedowns of inventories and expediency of the net realisable value; implementing the sampling procedure to verify rationality of inventory age; and analyzing the ratio of the current inventory writedowns to the balance of normal inventories, in order to evaluate if the writedowns of general inventories are appropriate.

## 2. Recognition and Cutoff of Revenues

For detailed accounting policies for revenue recognition, refer to Note IV (XIV); for details of revenues, refer to Annex VI (XVII).

Notes on key audit matters:

The revenues of CASwell, Inc. have mainly been earned from R&D, production and sales of related equipment related to safe network communication platforms. They were recognized as investors' concerns, so recognition and cutoff of revenues were one of important items we evaluated in auditing the financial reports of CASwell, Inc.

Audit processes:

Our main audit processes for the above key audit matter included testing revenue related internal control systems; reviewing new material contracts and understanding impacts of contractual terms upon revenue recognition; sampling sales transactions concluded over a period before and after the date of the balance sheet, and evaluating if revenues were accounted at the right time points.

## 3. Evaluation of Investment Impairment Accounted for Using the Equity Method

For the detailed accounting policy regarding investment impairment accounted for using the equity method, refer to Annex IV (VIII) Investment in Subsidiaries; for the uncertainties of accounting estimates and assumptions regarding investment impairment accounted for using the equity method, refer to Annex V (II); for details of the financial reports on investments accounted for using the equity method, refer to Annex VI (V).

Notes on key audit matters:

The goodwill generated by merger and acquisition of CASwell, Inc. is material. The management has evaluated and tested impairment according to the international accounting standards, and estimated the future cash flows expected from the asset's cash-generating unit. Calculation of future cash flows involves several assumptions and estimates, with a high level of uncertainty, so evaluating investment impairment using equity method has been listed as a key audit matter by us in auditing the financial reports of CASwell, Inc.

Audit processes:

Our main audit processes for the above key audit matter included evaluating future cash flow forecasts and discount rate of hypotheses adopted by the impairment model, comparing historical performances with future cash flow forecasts, and comparing discount rate against related external data, so as to perform impairment test of goodwill.

## **Responsibilities of Management and Governing Bodies for Financial Statements**

To ensure that the financial reports do not contain material misstatements caused by fraud or errors, the management is responsible for preparing fair financial reports in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and maintaining necessary internal control related to preparation of financial reports.

In preparing financial reports, the management is responsible for evaluating the ability of CASwell, Inc. to continue as a going concern, disclosing, as applicable, matters related to the going concern, and use the going concern basis of accounting, unless the management either intends to liquidate CASwell, Inc. ceases operations, or has no realistic alternative but to do so.

The governing bodies of CASwell, Inc. (including the audit committee) are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 might arise from fraud or error. The misstatements may be considered material if they are individually or in the aggregate could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 evaluate the risk of material misstatements due to fraud or error in the financial statements; design and carry out appropriate countermeasures for the evaluated risk; and obtain sufficient and appropriate evidence as the basis for audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than 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 controls 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 internal controls of CASwell, Inc.
3. Assess the appropriateness of the accounting policies adopted by the management, as well as the reasonableness of their accounting estimates and relevant disclosures.
4. Conclude on the appropriateness of the 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 ability of CASwell, Inc. to operate as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause CASwell, Inc. to cease to continue as a going concern.
5. Evaluate the overall expression, structure and contents of the financial statements (including relevant notes), and whether the financial statements fairly present relevant transactions and items.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the investee companies within CASwell, Inc. to express an opinion on the financial statements. We are

responsible for the direction, supervision, and performance of the audit and for expressing an opinion on the financial statements of CASwell, Inc.

We communicate with those governing bodies 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 governing bodies 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 governing bodies, we determine the key audit matters of the financial statements of CASwell, Inc. for 2020. We describe these matters in our auditor's 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.

KPMG

CPA:

Securities Competent : Tai-Cai-Zheng-6  
Authority Approval No. No.0930106739  
Jin-Guang-zheng-Shen  
No.1040003949

25 March, 2021

Notices to Readers

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

CASwell, Inc.

Balance Sheets  
31 December, 2020 and 2019  
Unit: NTD Thousand

	2020.12.31		2019.12.31	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current assets:</b>				
1100 Cash and cash equivalents (Note VI (I))	\$ 465,892	11	410,003	12
1110 Financial assets at fair value through profit or loss - current (X)	373	-	-	-
1170 Notes receivables and accounts receivables - net (Note (II) (XVII))	631,757	15	610,445	18
1180 Net trade receivables from related parties (Note VI (II) (XVII) and VII)	194,357	5	178,156	5
1200 Other receivables (including related parties) (Note VI (III) and Note VII)	75,790	2	81,097	3
130X Inventories (Note VI (IX))	1,781,602	43	1,307,437	38
1470 Other current assets (Note VIII)	60,897	2	64,886	2
Total current assets	3,210,668	78	2,652,024	78
<b>Non-current assets:</b>				
1510 Financial assets at fair value through profit or loss - non-current	14,400	1	-	-
1517 Financial assets at fair value through other comprehensive income - non-current	8,000	-	-	-
1550 Investments accounted for using the equity method (Note VI (V))	823,277	20	693,671	20
1600 Property, plant and equipment (Note VI (VII))	31,655	1	28,627	1
1755 Right-of-use assets (Note VI (VIII))	11,270	-	28,999	1
1780 Intangible assets	1,566	-	3,578	-
1840 Deferred tax assets (Note VI (XIII))	-	-	115	-
1900 Other non-current assets	238	-	665	-
Total non-current assets	890,406	22	755,655	22
<b>Total assets</b>	<b>\$ 4,101,074</b>	<b>100</b>	<b>3,407,679</b>	<b>100</b>

	2020.12.31		2019.12.31	
	Amount	%	Amount	%
<b>Liabilities and equity</b>				
<b>Current liabilities:</b>				
2100 Short-term borrowings (Note VI (IX))	\$ -	-	130,000	4
2170 Notes and accounts payable	502,641	12	499,304	15
2180 Accounts payable - related parties (Note VII)	111,361	3	55,695	2
2200 Other payables (including related parties) (Note VII)	99,126	3	83,694	2
2230 Current income tax liabilities	42,628	1	24,787	1
2252 Short-term provisions for warranty	4,914	-	8,767	-
2280 Lease liabilities - current (Note VI (XI))	10,304	-	20,262	1
2300 Other current liabilities	53,711	1	44,519	1
Total current liabilities	824,685	20	867,028	26
<b>Non-current liabilities:</b>				
2530 <b>Bonds payable (Note VI (X))</b>	175,040	4	-	-
2552 Long-term provisions for warranty	10,383	-	6,331	-
2570 Deferred tax liabilities (Note VI (XIII))	12,379	1	-	-
2580 Lease liabilities - non-current (Note VI (XI))	1,066	-	8,896	-
2670 Other non-current liabilities - others	74	-	34	-
Total non-current liabilities	198,942	5	15,261	-
<b>Total liabilities</b>	<b>1,023,627</b>	<b>25</b>	<b>882,289</b>	<b>26</b>
<b>Equity (Note VI (XIV)):</b>				
3100 Share capital	730,678	18	680,357	20
3200 Capital surplus (Note VI (X))	1,412,389	35	934,426	27
<b>Retained earnings:</b>				
3310 Legal reserve	265,232	6	236,334	7
3320 Special reserve	32,749	1	13,066	-
3350 Unappropriated earnings (Note VI (VI))	684,323	17	711,812	21
Total retained earnings	982,304	24	961,212	28
3400 Other equity	(30,068)	(1)	(32,749)	(1)
3500 Treasury shares (Note XIV) (XV))	(17,856)	(1)	(17,856)	-
<b>Total equity</b>	<b>3,077,447</b>	<b>75</b>	<b>2,525,390</b>	<b>74</b>
<b>Total liabilities and equity</b>	<b>\$ 4,101,074</b>	<b>100</b>	<b>3,407,679</b>	<b>100</b>

(Please read the notes to the financial statements attached here below carefully)

Chairman: Steve Chu

Manager: Reaforl Hung

Accounting Supervisor: Helen Chang

## CASwell, Inc.

### Statement of Comprehensive Income From January 1 to December 31, 2020 and 2019 Unit: NTD Thousand

		2020		2019	
		Amount	%	Amount	%
4000	<b>Operating revenue (Note VI (XVII) and VII)</b>	\$ 3,821,434	100	3,330,426	100
5000	<b>Operating costs (Note VI (IV) (XI) (XII) (XV) (XVIII), VII and XII)</b>	3,116,556	82	2,742,207	82
	<b>Gross profit</b>	704,878	18	588,219	18
	<b>Operating expenses (Note VI (XI) (XII) (XV) (XVIII) and XII):</b>				
6100	Selling and marketing expenses	92,852	2	74,655	2
6200	General and administrative expenses	55,770	1	51,332	2
6300	Research and development expenses	183,430	5	156,442	5
6450	Expected credit loss (Note VI (II))	60	-	-	-
	<b>Total operating expenses</b>	332,112	8	282,429	9
	<b>Net operating income</b>	372,766	10	305,790	9
	<b>Non-operating income and expenses (Note VI (XIX)):</b>				
7100	<b>Interest income</b>	2,256	-	3,399	-
7010	Other income	10,560	-	8,113	-
7020	Other gains and losses	(7,469)	-	(11,704)	-
7050	Finance costs (Note VI (X) (XI))	(5,838)	-	(761)	-
7070	Share of profit of subsidiaries accounted for using the equity method	84,603	2	51,253	1
	<b>Total non-operating income and expenses</b>	84,112	2	50,300	1
7900	<b>Net pretax profit of current period</b>	456,878	12	356,090	10
7950	<b>Less: Income tax expense (Note VI (XIII))</b>	84,525	2	67,110	2
8200	<b>Net profit of current period</b>	372,353	10	288,980	8
8300	<b>Other comprehensive income/(loss):</b>				
8310	<b>Items of other comprehensive income that will not be reclassified to profit or loss</b>				
8316	Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	-	-	(10,450)	-
8349	Less: Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	-
		-	-	(10,450)	-
8360	<b>Items that may be reclassified subsequently to profit or loss</b>				
8361	Less: Exchange differences on translating the financial statements of foreign operations	2,681	-	(9,232)	-
8399	Less: Income tax relating to items that may be reclassified subsequently to profit or loss	-	-	-	-
	<b>Total items that may be reclassified subsequently to profit or loss</b>	2,681	-	(9,232)	-
8300	<b>Other comprehensive income/(loss) of current period</b>	2,681	-	(19,682)	-
8500	<b>Total comprehensive income/(loss) of current period</b>	<u>\$ 375,034</u>	<u>10</u>	<u>269,298</u>	<u>8</u>
	<b>Earnings per Share (Note VI (XVI))</b>				
9750	Earnings per share (NTD)	<u>\$ 5.29</u>		<u>4.28</u>	
9850	Diluted earnings per share (NTD)	<u>\$ 5.18</u>		<u>4.28</u>	

(Please read the notes to the financial statements attached here below carefully)

Chairman: Steve Chu

Manager: Reaforl Hung

Accounting Supervisor: Helen Chang



CASwell, Inc.

Statement of Changes in Equity  
From January 1 to December 31, 2020 and 2019  
Unit: NTD Thousand

	Retained earnings					Other equity			Total Equity
	Share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Less: Exchange differences on translating the financial statements of foreign operations	Unrealized Gains (Losses) on Financial Assets at Fair Value through Other Comprehensive Income	Treasury shares	
<b>Balance as of January 1, 2019</b>	\$ 680,357	930,408	200,720	11,720	695,806	(13,067)	-	(51,269)	2,454,675
Net profit of current period	-	-	-	-	288,980	-	-	-	288,980
Other comprehensive income/(loss) of current period	-	-	-	-	-	(9,232)	(10,450)	-	(19,682)
Total comprehensive income/(loss) of current period	-	-	-	-	288,980	(9,232)	(10,450)	-	269,298
Appropriation of earnings:									
Recognized legal reserve	-	-	35,614	-	(35,614)	-	-	-	-
Recognized special reserve	-	-	-	1,346	(1,346)	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(236,014)	-	-	-	(236,014)
Treasury shares transferred to employees	-	4,018	-	-	-	-	-	33,413	37,431
<b>Balance as of December 31, 2019</b>	680,357	934,426	236,334	13,066	711,812	(22,299)	(10,450)	(17,856)	2,525,390
Net profit of current period	-	-	-	-	372,353	-	-	-	372,353
Other comprehensive income/(loss) of current period	-	-	-	-	-	2,681	-	-	2,681
Total comprehensive income/(loss) of current period	-	-	-	-	372,353	2,681	-	-	375,034
Appropriation of earnings:									
Recognized legal reserve	-	-	28,898	-	(28,898)	-	-	-	-
Recognized special reserve	-	-	-	19,683	(19,683)	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(203,477)	-	-	-	(203,477)
Changes in percentage of ownership interests in subsidiaries	-	-	-	-	(147,784)	-	-	-	(147,784)
Equity recognized due to issuance of convertible bonds-	-	18,830	-	-	-	-	-	-	18,830
Corporate bond conversion into ordinary shares	50,321	459,133	-	-	-	-	-	-	509,454
<b>Balance as of December 31, 2020</b>	<u>\$ 730,678</u>	<u>1,412,389</u>	<u>265,232</u>	<u>32,749</u>	<u>684,323</u>	<u>(19,618)</u>	<u>(10,450)</u>	<u>(17,856)</u>	<u>3,077,447</u>

(Please read the notes to the financial statements attached here below carefully)

Chairman: Steve Chu

Manager: Reaforl Hung

Accounting Supervisor: Helen Chang

**CASwell, Inc.****Statement of Cash Flow**

From January 1 to December 31, 2020 and 2019

Unit: NTD Thousand

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
<b>Net pretax profit of current period</b>	\$ 456,878	356,090
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss)</b>		
Depreciation expenses	35,969	35,503
Amortization expenses	2,651	2,418
Expected credit loss	60	-
Net gain on financial assets at fair value through profit or loss	(2,214)	-
Interest expense	5,838	761
Interest income	(2,256)	(3,399)
Share of profit of subsidiaries accounted for using the equity method	(84,603)	(51,253)
Unrealized gain on transactions with associates and joint ventures	698	8,341
Compensation cost related to share-based payment	-	4,119
Total adjustments for reconcile profit (loss)	<u>(43,857)</u>	<u>(3,510)</u>
Changes in operating assets/liabilities:		
Net changes in operating assets:		
(Increase) decrease in notes and accounts receivable (including related parties)	(37,573)	266,325
Decrease in other receivables (including related parties)	5,136	7,630
(Increase) decrease in inventories	(474,165)	72,851
Decrease (increase) in other current assets	3,989	(26,858)
Total net changes in operating assets	<u>(502,613)</u>	<u>319,948</u>
Net changes in operating liabilities:		
Increase (decrease) in notes and accounts payable (including related parties)	59,003	(463,592)
Increase (decrease) in other payables (including related parties)	15,490	(5,896)
Increase in warranty provisions	199	-
Increase in other current liabilities	9,192	20,588
Total net changes in operating liabilities	<u>83,884</u>	<u>(448,900)</u>
Total net changes in operating assets and liabilities	<u>(418,729)</u>	<u>(128,952)</u>
Total adjustments for reconcile profit (loss)	<u>(462,586)</u>	<u>(132,462)</u>
<b>Cash (outflow) inflow generated from operations</b>	(5,708)	223,628
Interest received	2,427	3,294
Interest paid	(431)	(247)
Income tax paid	<u>(54,190)</u>	<u>(90,576)</u>
<b>Net cash (outflow) inflow from operating activities</b>	<u>(57,902)</u>	<u>136,099</u>
<b>Cash flows from investing activities:</b>		
Purchase of financial assets at fair value through other comprehensive income	(8,000)	-
Acquisition of financial assets at fair value through profit or loss	(14,400)	-
Acquisition of investments accounted for using equity method	(224,929)	(437,387)
Acquisition of property, plant and equipment	(17,974)	(2,305)
Acquisition of intangible assets	(639)	(2,080)
Increase in other non-current assets	(87)	(7,397)
Dividends received	34,125	-
Net cash outflow of investing activities	<u>(231,904)</u>	<u>(449,169)</u>
<b>Cash flows from financing activities</b>		
Repayments of and proceeds from short-term borrowings	(130,000)	130,000
Proceeds from issuance of convertible bonds	699,700	-
Repayment of lease principal	(20,568)	(20,705)
Increase in other non-current liabilities	40	16
Cash dividends paid	(203,477)	(236,014)
Share issue costs	-	(101)
Transfer costs of treasury stocks	-	33,413
<b>Net Cash Inflow (Outflow) Generated from Financing Activities</b>	<u>345,695</u>	<u>(93,391)</u>
Increase (decrease) in cash and cash equivalents of current period	55,889	(406,461)
Cash and cash equivalents at beginning of year	410,003	816,464
Cash and cash equivalents at end of year	<u>\$ 465,892</u>	<u>410,003</u>

(Please read the notes to the financial statements attached here below carefully)

Chairman: Steve Chu

Manager: Reaforl Hung

Accounting Supervisor: Helen Chang

## CASwell, Inc.

### Notes to Parent Company Only Financial Statements 2020 and 2019

(Amount in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

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#### 1. Company History

CASwell, Inc. (hereinafter referred to as "the Company") was established on April 19, 2007 with the approval of the Ministry of Economic Affairs at the registered address of Principal business of the Company includes manufacturing of electronic parts, computer and peripheral devices, electronic material wholesale and software services The Company was listed on the stock exchange on April 16, 2018.

#### 2. Date and Procedures of Authorization of Financial Statements

The Parent Company Only Financial Statements have been approved by the Board of Directors on March 25, 2021.

#### 3. Application of New and Amended Standards and Interpretations

- a. Impact of adopting newly issued or amended standards and interpretations endorsed by the Financial Supervisory Commission

The Company has adopted the revised IFRSs since January 1, 2020, without any material impact on the Parent Company Only Financial Statements.

- b. Effect of IFRSs endorsed by the FSC but not yet adopted by the Company

The Company has evaluated that the adoption of the revised IFRSs, effective from January 1, 2021, will not have a material impact on the Parent Company Only Financial Statements.

- c. New and amended IFRSs, not yet endorsed by the FSC, and their interpretations

Impact on the Company of IFRSs Issued and amended by IASB but not yet endorsed by the FSC and their interpretations:

<u>New or amended IFRSs</u>	<u>Major amendments</u>	<u>Effective Date of Issuance by the IASB</u>
According to the amended IAS 1, liabilities should be classified into current liabilities and non-current liabilities.	<p>The amendments are to promote consistency in applying the standards by helping companies determine whether debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due within one year) or non-current in the balance sheet.</p> <p>The amendments also clarify the classification rules for debts companies might settle by converting them into equity.</p>	2023.1.1

The Company has continued to assess the impacts of the foresaid amendments and their interpretations on our financial conditions and performance. Related impacts will be disclosed upon completion of the assessment.

The Company anticipates that new and revised IFRSs, which have not yet been endorsed by the FSC, will not have a material impact on the Parent Company Only Financial Statements.

#### **4. Summary of Significant Accounting Policies**

The significant accounting policies applied to the Parent Company Only Financial Statements are as follows. These policies, excluding Note 3, have been consistently applied to all the periods presented.

a. Compliance Statement

The Parent Company Only Financial Statements were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Preparation basis

1) Basis of measurement

Except for the following significant items provided in the balance sheet, the parent company only financial statements are prepared based on historical cost convention:

- a) Financial assets at fair value through profit or loss measured at fair value.
- b) Financial assets at fair value through other comprehensive income measured at fair value.

2) Functional currency and presentation currency

The functional currency of each individual entity should be the currency of the economy they operate in. The Parent Company Only Financial Statements are presented in the New Taiwan dollar, the Company's functional currency. All financial information presented in New Taiwan Dollars is in NT\$ Thousands.

c. Foreign currencies

1) Foreign currency transaction

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary items are converted into functional currency at the end of each subsequent date of financial reporting (hereinafter referred to as the reporting date) at the exchange rate on that day.

Foreign currency items measured at fair value are re-translated into functional currency according to the exchange rate on the date of fair value, and foreign currency non-currency items measured through historical cost will be translated according to the exchange rate on the date of transaction.

Exchange differences resulting from translating the foreign currency are generally recognized as profit and loss, but the following items are recognized as other comprehensive income:

- a) Exchange differences identified as equity instruments at fair value through other comprehensive income;
- b) Exchange differences identified as financial liabilities designated as hedges of net investments of foreign operations within the effective hedging range; or
- c) Qualified cash flow hedge within the effective hedging range.

2) foreign operations

The assets and liabilities of a foreign operation, including the goodwill and fair value adjustment, are translated into NTD according to the exchange rate on the reporting date; the revenue and expense items are translated into NTD according to the average exchange rate of the period. And the exchange difference amount will be recognized as other comprehensive income.

When the disposal of a foreign operation causes loss of control, joint control or material impact, all cumulative exchange differences that are attributable to such foreign operation are to be reclassified to profit or loss. In the case of partial disposal of a subsidiary with a foreign operation, the accumulated exchange difference is reclassified into non-controlling interest in proportion. In the case of partial disposal of investments in an affiliated enterprise or joint venture with a foreign operation, the accumulated exchange difference is reclassified into profit or loss in proportion.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the related gains and losses arising from the foreign currency exchange are regarded as part of the net investment in that foreign operation and recognized as other comprehensive income.

d. Standards for classification of current and non-current assets and liabilities

Assets that meet any of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- 1) Assets expected to be realized, or intended to be sold or consumed within the normal operating cycle;
- 2) Assets held primarily for exchange;
- 3) Assets expected to be realized within 12 months after the end of the reporting period; or
- 4) Cash or cash equivalents, excluding restricted cash or cash equivalents and those that are to be exchanged or used to pay off liabilities more than 12 months after the end of the reporting period.

Liabilities that meet any of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- 1) Liabilities expected to be paid off within the normal operating cycle;
- 2) Liabilities held primarily for exchange;
- 3) Liabilities to be paid off within 12 months after the end of the reporting period; or
- 4) Liabilities with a repayment schedule that the repayment cannot be unconditionally deferred till at least 12 months after the the end of the reporting period. Terms of liabilities, settled by issuance of equity instruments at the option of the counterparty, do not affect the classification of such liability.

e. Cash and cash equivalents

Cash includes cash on hand and current deposit. Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the foregoing definition and are held for short-term cash commitments other than investment or other purposes are presented as cash equivalents.

f. Financial instruments

Trade receivables and debt securities issued were originally recognized when they were generated. All other financial assets and financial liabilities were recognized when the Company becomes a party of the financial instrument contract. Financial assets that are not measured at fair value through profit or loss (other than trade receivables that do not contain a significant financing component) or financial liabilities are originally measured at fair value plus the transaction costs directly attributable to the acquisition or issuance. Trade receivables that do not contain a significant financing component are measured at transaction prices.

1) Financial assets

For the purchase or sale of financial assets that conforms to customary transactions, the Company consistently treats all purchases and sales of financial assets classified in the same manner based on the transaction date or delivery date. Financial assets, when initially recognized, may be classified into financial assets at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets from the next reporting period.

a) Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at fair value through profit and loss:

- it is held within a business model with an aim to hold assets to collect contractual cash flows.
- The terms and conditions of the contract of such financial assets, generate a cash flow on a specified date, that are solely for the payment of interest on the principal and the amount of principal outstanding.

Such financial asset measured at amortized cost is subsequently recognized at their initial value, plus any directly attributable transaction costs using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign currency profit or loss and impairment loss are recognized as profit or loss. When performing derecognition, cumulative profit or loss is recognized as profit or loss.

b) Financial assets at fair value through other comprehensive income

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably opt to present subsequent changes in the investment's fair value in other comprehensive income. This option is made on an instrument-by-instrument basis.

An investment through equity instrument is subsequently measured at fair value. Dividend income (unless it clearly represents the return on part of the investment cost) is recognized as profit and loss. The remaining net profit or loss is recognized as other comprehensive income and is not reclassified to profit and loss.

Dividend income derived from equity investments is recognized on the date (normally the ex-dividend date) that the Company is entitled to receive dividend.

c) Financial assets at fair value through profit or loss

Financial assets that are not at amortized cost or at fair value through other comprehensive income as mentioned above are measured at fair value through profit or loss, including derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or measured at fair value through other comprehensive income, as at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value, and their net profits or losses (including any dividends and interest income) are recognized as profit or loss.

d) Impairment of financial assets

The expected credit loss for financial assets measured through amortized cost by the consolidated company (including cash and cash equivalents, financial assets measured at amortized cost, notes receivable, trade receivables, other receivables, refundable deposit, and other financial assets, etc.) is recognized as allowance loss.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances of trades receivables are recognized based on the expected credit loss during the term of duration.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward-looking information.

Time deposits held by the Company are traded with and performed by financial institutions of investment grade or above, and therefore are deemed to have low credit risk.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 120 days past due.

If the contract payment is more than 180 days overdue or the borrower is unlikely to fulfill its credit obligation to pay the Company in full, the Company considers that default occurs on the financial asset.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The 12-month expected credit losses represent the expected credit losses arising from the possible default of the financial instrument in the 12 months after the

reporting date (or a shorter period, if the expected lifetime of the financial instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, or the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

The Company evaluates whether there is credit impairment in measuring financial assets through amortized cost on every reporting date. When there is one or more events arising that will bring unfavorable influence to expected future cash flow, there is already credit impairment to the financial asset. Evidence of a credit impairment of a financial asset includes the observable information for the following events:

- Major financial difficulties of the borrower or issuer;
- Default, such as delay or overdue for more than 180 days;
- The Company may make a concession for the borrower that would not have been considered for economic or contractual reasons related to the borrower's financial difficulties;
- The borrower is most likely to file for bankruptcy or conduct other financial restructuring; or
- The active market for the financial asset disappears due to financial difficulties.

The allowance loss of financial assets measured through amortized cost is deducted from the carrying amount of assets.

The gross carrying amount of a financial asset is written off directly provided that that there is no realistic prospect of recovery either partially or in full . For companies, the Company analyzes the timing and amount of write-offs individually based on whether it is reasonably expected to be recoverable. The Company expects that the amount written off will not be materially reversed. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

e) Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights to the cash inflow from the asset expire or when the Company transfers the financial assets with substantially all the risks and rewards of ownership to other enterprises, or does not transfer nor retain almost all risk and rewards of ownership nor retain right to control such financial assets.

When the Company enters into a transaction to transfer financial assets, if it retains all or almost all risks and rewards of ownership of the transferred assets, it will continue to be recognized on the balance sheet.



2) Financial liabilities & equity instruments

a) Classification of liabilities or equities

The debt and equity instruments issued by the Company are classified as financial liabilities or equity according to the substance of the contractual agreement and the definition of financial liabilities and equity instruments.

b) Equity transactions

Equity instruments refer to any contracts containing the Company's residual interest after subtracting liabilities from assets. The equity instrument issued by the Company shall be recognized by the payment net of the direct cost of issuance.

c) Treasury shares

When buying back the equity instruments recognized by the Company, the consideration paid (including directly attributable costs) is recognized as a decrease in equity. The repurchased shares are classified as treasury stocks. For subsequent sales or re-issuance of treasury stocks, the amount received is recognized as an increase in equity, and the remaining or loss generated by the transaction is recognized as a capital reserve or retained surplus (if the capital reserve is insufficient for the offsetting).

d) Composite instruments

The composite financial instruments issued by the Company refer to corporate bonds (denominated in NTD) for which holders enjoy the option to convert them into capital, and the number of issued shares will not change with variation of fair value.

For the components of composite financial instruments liability, the initially recognized amount is measured at fair value through liabilities excluding those similar to equity conversion option. For the components of equity, the initially recognized amount is measured by the difference between fair value of overall composite financial instruments and fair value of components of liability. Any directly attributable transaction cost will be amortized to liability and equity components according to the carrying amount ratio of original liability and equity.

After initial recognition, the liability components of composite financial instruments are measured through amortized cost with effective interest rate method. The components of composite financial instruments will not be re-measured after initial recognition.

Interest related to financial liabilities is recognized as profit or loss. Financial liability is reclassified as equity upon conversion without being recognized as profit or loss.

e) Financial liabilities

Financial liabilities are classified as financial liabilities at amortized costs or at fair value through profit or loss. Financial liabilities are classified as financial assets at fair value through profit or loss if they are held for trading, derivatives, or designated at initial recognition. Financial assets at fair value through profit or loss are measured at fair value; and profit or loss, including any interest expense, arising from such financial assets are recognized as profit or loss.

Other subsequent financial liabilities are measured at amortized cost using the effective interest method. Interest expense and profit or loss from foreign currency exchange are recognized as profit or loss. Any gain or loss on derecognition is recognized as profit or loss.

f) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. When the terms of financial liabilities are modified and the cash flow of the modified liabilities is significantly different, the original financial liabilities are derecognized and the new financial liabilities are recognized at fair value based on the revised terms.

When financial liabilities are derecognized, the difference between their carrying amount and the paid consideration (including any transferred non-cash assets or liabilities assumed) shall be recognized in profit or loss.

g) Offset of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when it has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

g. Inventories

Inventories are measured at the lower of cost or net realizable value. Inventories are measured at standard cost generally, but when compared against actual cost during the reporting period, necessary adjustment should be made to ensure the inventories are approximate to the weighted average cost. The net realizable value is the estimated selling price in the ordinary course of business less the estimated additional cost required for completion and the estimated cost necessary to offer for sale.

h. Investments in subsidiaries

In preparation of parent company only financial statements, the Company uses equity method for investments with controlling interests. Under equity method, allocated amount in current income (loss) and other comprehensive income (loss) in the parent company only financial statements are consistent with those attributable to shareholders of the parent Company in the consolidated financial statements. Shareholders' equity in parent company only financial statements and equity attributable to shareholders of the parent Company in consolidated financial reports are the same.

When a change in the Company's ownership interests in a subsidiary does not cause it to lose control of the subsidiary, it shall be accounted for as an equity transaction.

i. Property, plant, and equipment

1) Recognition and measurement

Property, plant, and equipment shall be measured by deducting accumulated depreciation or any accumulated impairment from cost (including capitalized borrowing costs).

The material components of property, plant and equipment with different service lives are treated as separate items (major components) of property, plant and equipment.

The gain or loss arising from the disposal of property, plant and equipment shall be recognized as profit and loss.

2) Subsequent cost

Subsequent cost is only capitalized when the future economic benefits are likely to flow into the Company.

3) Depreciation

Depreciation is calculated based on the cost deducting the residual value, and depreciation measured using the straight-line method is recognized in profit or loss within the estimated service life of each component.

The estimated service lives of equipment for the current and comparative periods:

- a) Machinery equipment: 3~5 years
- b) Equipment for R&D purpose: 2~5 years
- c) Other equipment: 2~8 years

Depreciation methods, service lives, and residual values are reviewed on each reporting date and adjusted when necessary.

j. Leases

1) Judgement of Lease

The Company evaluates whether the contract is a lease or contains a lease upon the conclusion of the contract. If the contract transfers control over the use of the identified assets for a period of time in exchange for consideration, the contract is a lease or contains a lease. In order to evaluate whether the contract is a lease, the Company evaluates the following items:

- a) The contract involves the use of an identified asset that is explicitly specified in the contract or implied by the time when it is available for use. Its entity can distinguish or represent substantially all of its production capacity. If the supplier has substantive rights to replace the asset, the asset is not an identified asset; and
- b) The right to obtain almost all economic benefits from the use of identified assets throughout the period of use; and
- c) To obtain the right to lead the use of identified assets when one of the following conditions is met:
  - The client has the right to decide the use of the identified assets and the purpose of use throughout the period of use.
  - Relevant decisions about the way of use and purpose of the asset are made in advance, and:
    - The client has the right to operate the asset during the entire use period, and the supplier does not have the right to change the operation instructions; or
    - The way in which the client plans the asset has pre-determined the way and purpose of use for the entire period of use.

Upon the conclusion of the lease or when reassessing whether the contract includes a lease, the Company allocates the consideration in the contract to the individual lease components on the basis of the relative individual price. However, when leasing land and buildings, the Company chooses not to distinguish between non-lease components and treats the lease component and non-lease component as a single lease component.

## 2) Lessee

The Company recognizes the right-of-use asset and lease liability upon the inception of the lease. The right-of-use asset is initially measured at cost, which includes the original measured amount of the lease liability, adjusts any lease payments paid on or before the inception of the lease and adds the original direct cost incurred and the estimated cost of dismantling, removing the underlying asset and restoring its location or underlying asset, and deducting any lease incentive.

The right-of-use assets shall be depreciated on a straight-line basis from lease commencement date to the end of the service life or the end of the lease term, whichever comes earlier. In addition, the Company regularly assesses whether the right-of-use asset is impaired and treats any impairment loss that has occurred, as well as adjust the right-of-use asset accordingly when the lease liability is remeasured.

Lease liabilities are initially measured by the present value of the lease payments that have not been paid at the inception of the lease. If the implicit interest rate of the lease is easy to determine, it is applied as the discount rate. If it is not easy to determine, the incremental borrowing rate of the consolidated company is used. Generally speaking, the Company adopts the incremental borrowing rate as the discount rate.

Lease payments included in the measurement of lease liabilities:

- a) Fixed payments, including substantial fixed payments;
- b) Variable lease payments dependent upon certain indicators or rates are measured by the indicators or rates used at the inception of the lease;
- c) The residual value guarantee expected to be paid; and
- d) The exercise price or the penalty payable When reasonably determined that the purchase option or lease termination option will be exercised.

The lease liability is subsequently accrued by the effective interest method, and the amount is measured when the following occurs:

- a) Changes in the indicator or rate used to determine lease payments result in changes in future lease payments;
- b) Changes in the residual value guarantee expected to be paid;
- c) Changes in the evaluation of the subject asset purchase option;
- d) Changes in the estimate that informs the decision to exercise the extension or termination option, and in the assessment of the lease period;
- e) Modification of lease subject, scope or other terms.

When the lease liability is remeasured due to changes in the aforementioned indicator or rate used to determine lease payments, changes in the residual value guarantee, and changes in the evaluation of purchase, extension or termination options, the carrying amount of the right-of-use asset is adjusted accordingly. When the carrying amount of the right-of-use asset is reduced to zero, the remaining remeasured amount is recognized in profit or loss.

For lease modifications that reduce the scope of the lease, the carrying amount of the right-of-use asset is reduced to reflect the partial or full termination of the lease, and the difference between the lease and the remeasured amount of the lease liability is recognized in profit or loss.

For short-term lease of office equipment and other equipment, and lease of low-value

assets, the Company opts not to recognize such lease as right-of-use assets or lease liabilities, and relevant rent is recognized as expenses during the term of lease on a straight line basis.

k. Intangible assets

1) Recognition and measurement

Intangible assets acquired by the Company with a limited service life are measured by deducting accumulated amortization and accumulated impairment from cost.

2) Amortization

Except for goodwill, amortization is calculated based on the cost of assets less the estimated residual value. Since the intangible assets are ready for use, amortization, measured with the straight-line method, is recognized as profit or loss within their estimated service life.

The estimated service lives of equipment for the current and comparative periods:

Computer software: 2~ 5 years

The residual value, service life and amortization method of intangible assets are reviewed by the Company on each reporting date, and adjusted when necessary.

l. Impairment of non-financial assets

On each reporting date, the Company assesses whether there is any indication that the carrying amount of non-financial assets (other than inventory and deferred tax assets) is impaired. If any such indication is found, the recoverable amount of the asset is estimated. An impairment test is conducted on goodwill on a yearly basis.

For the purpose of impairment test, a group of assets whose cash inflows are largely independent of the cash inflows of other individual assets or asset groups is used as the smallest identifiable asset group. Goodwill derived from the merger is apportioned to the cash generating units or groups of cash generating units that are expected to benefit from the general effect of the merger.

The recoverable amount is measured by deducting disposal cost and value in use of an individual asset or cash generating unit from its fair value, whichever is higher. When evaluating the value in use, the estimated future cash flow is converted to the present value at a pre-tax discount rate, which should reflect the current market assessment of the time value of money and the specific risks for the asset or cash-generating unit.

If the recoverable amount of an individual asset or cash-generating unit is lower than the carrying amount, an impairment loss is recognized.

If loss from impairment is recognized in current profit and loss, carrying amount of goodwill allocated to the cash generating unit should be reduced first, and then carrying amount of other assets within the unit should be reduced in proportion.

The impairment loss of goodwill shall not be reversed. Non-financial assets other than goodwill will be reversed only to the extent not exceeding the carrying amount (less depreciation or amortization) determined if the impairment loss had not been recognized in the previous year.

m. Provisions

The recognition of provisions means that the Company has a present obligation arising from a past event, and it is likely that the Company will have to discharge resources with economic benefit in the future to fulfill the obligation, the amount of which can be reliably

estimated. The provision is discounted at a pre-tax discount rate that reflects the current market's assessment of the time value of money and the specific risk of liabilities. The amortization of the discount is recognized as interest expense.

Provision for warranty liabilities is recognized at the time of sale of goods or services and is measured on a weighted basis according to its relative probability based on historical warranty information and all possible outcomes.

n. Revenue recognition

1) Revenue from contracts with customers

Revenue is measured at the consideration to which it is expected to be entitled in transferring the goods or services. The Company recognizes revenue only when the control of goods or services is transferred to customers and the obligations are fulfilled. Major sources of revenue of the Company are as follows:

a) Sales of goods

The Company manufactures and sells to customers network communication products. The Company recognizes revenue when control of the products has transferred. The control of the products has transferred when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery means conveying the product to designated place, whereby its obsolescence and loss risk has been transferred to customer, and the customer has accepted the product according to sales contract while the acceptance inspection term goes invalid, or the consolidated company has objective evidences to believe that all acceptance inspection conditions have been met.

The Company provides standard warranty on Customer's products and therefore assumes the obligation to refund defects, and has recognized the obligation as provisions for warranty.

Trade receivables are recognized when the goods are delivered as this is the point in time that the Company has a right to an amount of consideration that is unconditional.

b) Financial components

The Company expects that the time between the transfer of goods or services to the customer under all customer contracts and the payment for such goods or services by the customer is not exceed one year. Therefore, the Company does not adjust the time value of money of the transaction price.

o. Employee benefits

1) Defined contribution scheme

Obligations for contribution to defined pension contribution scheme are recognized as expenses for the periods during which services are rendered by employees

2) Short-term employee benefits

Obligations for short-term employee benefits are recognized as expenses for the periods during which services are rendered by employees. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

p. Share-based payment transactions

The share-based payment agreement for equity delivery is recognized as expenses and increase in relative interest at the fair value of the date of conclusion during accrued period of the award. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Non-vesting conditions of share-based payment rewards have been reflected in measurement of fair value of share-based payment on the date payment is made, and there is no need to verify and adjust difference between estimate and actual values.

The date on which the share-based payment is made is the base date for capital increase approved by the Board of Directors.

q. Income tax

Income tax expenses include current and deferred income tax. Except for expenses related to merger or recognized directly in equity or other comprehensive income, all current and deferred income taxes shall be recognized in profit or loss.

Current income tax includes the estimated income tax payable or tax refunds receivable based on tax gains (losses) for the current year and any adjustments to income taxes payable or tax refunds receivable for the previous year.

The amount is based on the statutory tax rate at the reporting date or the tax rate of substantive legislation to measure the best estimate of the amount expected to be paid or received.

Deferred income tax is measured and recognized based on the temporary difference between the amount of assets and liabilities on the books for financial reporting purposes and the tax basis. Temporary differences arising from the following circumstances are not recognized as deferred income tax:

- 1) Assets or liabilities, other than those initially recognized in merger, which do not affect accounting profits and tax gains (losses) at the time of the transaction;
- 2) Temporary differences, associated with investments in subsidiaries, that the Company is able to control the time of reversal and may not be reversed in the foreseeable future.
- 3) Taxable temporary differences arising from the initial recognition of goodwill.

Deferred income tax is measured at the tax rate at the time of reversal of expected temporary differences using the statutory or substantive legislative tax rate on the reporting date.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- 1) The entity has the legal right to offset current tax liabilities with current tax assets, and
- 2) Deferred tax assets and deferred tax liabilities relate to one of the following tax payers whose income tax is levied by the same tax authority:
  - a) The same tax payer, or
  - b) Other tax payers, but such tax payers intend to settle current income tax liabilities and assets of significant amount on a net basis in each future period when the

deferred income tax assets of a significant amount are expected to be recovered and the deferred income tax liabilities are expected to be paid, or to acquire assets and liquidate liabilities at the same time.

A deferred tax asset should be recognized for the carry forward of unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax credits and deductible temporary differences can be utilized. Such unused tax credits and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax credits and deductible temporary differences can be utilized.

r. Earnings per Share

The Company discloses the basic and diluted earnings per share attributable to ordinary shareholders of the Company. The basic earnings per share of the Company is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the current period. The calculation of diluted earnings per share is based on the profit and loss attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all diluted potential ordinary shares. Potential diluted ordinary shares of the Company include convertible bonds and stock options for employees.

s. Segment Information

The Company has disclosed information of operating segments in consolidated financial statements. Therefore, related information is not disclosed in the parent company only financial statements.

**5. The Primary Sources of Uncertainties in Major Accounting Judgments, Estimates, and Assumptions**

The preparation of the parent company only financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires the management to make judgments, estimations and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Management continually reviews estimates and underlying assumptions, and recognizes the changes in accounting estimates in the period of change and in the affected future periods.

The Company has no accounting policies that involve material judgments and have material impact on the amounts recognized in the Parent Company Only Financial Statements

For the uncertainties in the assumptions and estimates, the information related to the material risk that will result in a material adjustment in the next fiscal period is as follows:

a. Inventory Valuation

As inventories are measured at the cost or net realizable value, whichever comes lower, the Company estimates the net realizable value of inventories that are normally worn and torn, obsolescent or unmarketable on the reporting date and then writes down the cost of inventories to net realizable value. The assessment of this inventory valuation is mainly based on the product requirements within a specific future period. Hence, it may have significant changes due to rapid industrial changes.



b. Valuation of loss on disposal of investments accounted for using the equity method

Valuation of loss on disposal of investments using equity method relies on subjective judgment of the Company, and the Company has to judge if the goodwill in invested subsidiaries has been impaired, goodwill that acquired through merger on the acquisition date shall be amortized into the cash-generating unit the Company expects to benefit from the comprehensive effects of the merger to evaluate the value in use of the goodwill amortized in the cash-generating unit. To calculate the value in use, the management shall estimate the future cash flow expected to be generated from the cash-generating unit goodwill is amortized to, and determine the appropriate discount rate used to calculate the present value. Significant impairment loss may occur if actual cash flows are lower than the forecasts.

**6. Details of Significant Accounting Items**

a. Cash and cash equivalents

	<u>2020.12.31</u>	<u>108.12.31</u>
Cash on hand and working capital	\$ 630	595
Foreign currency and current deposits	285,262	289,488
Time deposits	<u>180,000</u>	<u>119,920</u>
Cash and cash equivalents reported in the cash flow statement	<u><b>\$ 465,892</b></u>	<u><b>410,003</b></u>

Refer to Note VI(20) for the details on interest rate risk and sensitivity analysis of financial assets and liabilities of the Company.

b. Notes receivable and trade receivables (including those from related parties)

	<u>2020.12.31</u>	<u>2019.12.31</u>
Notes receivable - operating	\$ 211	749
Trade receivables-measured at amortized cost	826,783	788,672
Less: loss allowance	<u>(880)</u>	<u>(820)</u>
	<u><b>\$ 826,114</b></u>	<u><b>788,601</b></u>

The Company applies the simplified approach on the estimation of expected credit losses, that is, a loss allowance is recognized based on lifetime of expected credit losses. To measure the expected credit losses, notes receivable and trades receivable were grouped based on shared characteristics of credit risk on remaining payments before due date, and forward looking information was incorporated as well. The expected credit loss of notes receivable and trades receivable of the Company is analyzed as follows:

	<b>2020.12.31</b>		
	<b>Carrying amount of trade receivables</b>	<b>weighted average expected credit loss rate</b>	<b>Expected credit losses during the lifetime of loss allowance</b>
Not overdue	\$ 777,630	0.10%	787
Less than 30 days overdue	26,924	0.29%	77
31-120 days overdue	<u>22,440</u>	0.07%	<u>16</u>
	<b><u>\$ 826,994</u></b>		<b><u>880</u></b>

	<b>2019.12.31</b>		
	<b>Carrying amount of trade receivables</b>	<b>weighted average expected credit loss rate</b>	<b>Expected credit losses during the lifetime of loss allowance</b>
Not overdue	\$ 691,894	0.01%	88
Less than 30 days overdue	52,150	0.14%	73
31-120 days overdue	<u>45,377</u>	1.45%	<u>659</u>
	<b><u>\$ 789,421</u></b>		<b><u>820</u></b>

Changes in loss allowances for notes receivable and trades receivable of the Company are as follows:

	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 820	820
Impairment loss recognized	<u>60</u>	<u>-</u>
Ending balance	<b><u>\$ 880</u></b>	<b><u>820</u></b>

None of the aforesaid financial assets is used as a guarantee for borrowing and financing. Please refer to Note 6 (20) for further information on other credit risks.

c. Other receivables

	<u>2020.12.31</u>	<u>2019.12.31</u>
Other receivables-loans to subsidiaries	\$ 22,784	38,974
Others	53,006	42,123
Less: loss allowance	<u>-</u>	<u>-</u>
	<u><b>\$ 75,790</b></u>	<u><b>81,097</b></u>

Please refer to Note 6 (20) for further information on other credit risks.

d. Inventories

	<u>2020.12.31</u>	<u>2019.12.31</u>
Raw materials and consumables	\$ 906,965	899,219
Work-in-process	218,794	166,935
Finished products	<u>655,843</u>	<u>241,283</u>
	<u><b>\$ 1,781,602</b></u>	<u><b>1,307,437</b></u>

Loss on inventory valuation due to write-downs of inventories to net realizable value and gains on inventory valuation due to economic recovery, recognized by the Company in 2020 and 2019, have been recognized as increase and decrease in cost of goods sold respectively as follows:

	<u>2020</u>	<u>2019</u>
Loss on inventory valuation (gains on inventory valuation)	<u><b>\$ 4,462</b></u>	<u><b>(4,774)</b></u>

No inventories of the Company were pledged as collateral as of Dec. 31, 2020 and 2019.

e. Investments accounted for using the equity method

The Company's investments accounted for using the equity method on the reporting date are listed below:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Subsidiaries	<u><b>\$ 823,277</b></u>	<u><b>693,671</b></u>

Please refer to the Consolidated Financial statements for 2020.

No investments accounted for using the equity method were pledged as collateral as of Dec. 31, 2020 and 2019.

f. Changes in ownership equities in subsidiaries

The Company acquired equity shares of Hawkeye and APLIGO at the price of NT\$ 197,041 thousand and NT\$ 27,888 thousand in cash on July 15 and August 25, 2020 respectively, changes in shareholding are as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Hawkeye	60.64%	40.00%
APLIGO	66.67%	52.00%

The impact of changes in ownership equities of the Company in subsidiaries listed above on equities attributable to shareholders of the parent company:

	<u>Hawkeye</u>	<u>APLIGO</u>	<u>Total</u>
Carrying amount of additional equities acquired	\$ 53,707	23,438	77,145
Consideration paid	<u>(197,041)</u>	<u>(27,888)</u>	<u>(224,929)</u>
Retained earnings - the difference between the price paid to acquire equities in a subsidiary and its book value	<u>\$ (143,334)</u>	<u>(4,450)</u>	<u>(147,784)</u>

g. Property, plant and equipment

Changes in cost and depreciation of property, plant and equipment of the Company are as follows:

	<u>Mechanical equipment</u>	<u>Equipment for R&amp;D purpose</u>	<u>Other equipment</u>	<u>Total</u>
Cost				
Balance on Jan. 1, 2020	\$ 17,786	27,827	31,176	76,789
Additions	3,728	6,545	7,701	17,974
Disposal	(10,885)	(1,420)	(9,537)	(21,842)
Receipt of prepayments for equipment	<u>514</u>	<u>-</u>	<u>-</u>	<u>514</u>
Balance on Dec. 31, 2020	<u>\$ 11,143</u>	<u>32,952</u>	<u>29,340</u>	<u>73,435</u>
Balance on Jan. 1, 2019	\$ 19,100	25,384	27,915	72,399
Additions	-	-	2,305	2,305
Disposal	(3,380)	(1,222)	-	(4,602)
Receipt of prepayments for equipment	<u>2,066</u>	<u>3,665</u>	<u>956</u>	<u>6,687</u>
Balance on Dec. 31, 2019	<u>\$ 17,786</u>	<u>27,827</u>	<u>31,176</u>	<u>76,789</u>
Loss on depreciation and impairment				
Balance on Jan. 1, 2020	\$ 12,094	14,376	21,692	48,162
Depreciation	4,691	6,350	4,419	15,460

	<u>Mechanical equipment</u>	<u>Equipment for R&amp;D purpose</u>	<u>Other equipment</u>	<u>Total</u>
Disposal	(10,885)	(1,420)	(9,537)	(21,842)
Balance on Dec. 31, 2020	<u>\$ 5,900</u>	<u>19,306</u>	<u>16,574</u>	<u>41,780</u>
Balance on Jan. 1, 2019	\$ 9,901	10,372	17,410	37,683
Depreciation	5,573	5,226	4,282	15,081
Disposal	(3,380)	(1,222)	-	(4,602)
Balance on Dec. 31, 2019	<u>\$ 12,094</u>	<u>14,376</u>	<u>21,692</u>	<u>48,162</u>
Book value:				
Dec. 31, 2020	<u>\$ 5,243</u>	<u>13,646</u>	<u>12,766</u>	<u>31,655</u>
Dec. 31, 2019	<u>\$ 5,692</u>	<u>13,451</u>	<u>9,484</u>	<u>28,627</u>

No property, plant or equipment of the Company was pledged as collateral as of December 31, 2020 and 2019.

h. Right-of-use assets

Changes in cost and depreciation of buildings and structures leased by the Company are as follows:

	<u>Buildings and structures</u>
Cost of right-of-use assets:	
Balance on Jan. 1, 2020	\$ 49,421
Additions	2,780
Decrease	(1,559)
Balance on Dec. 31, 2020	<u>\$ 50,642</u>
Balance on Dec. 31, 2019 (same with balance on Jan.1, 2019)	<u>\$ 49,421</u>
Depreciation of right-of-use assets:	
Balance on Jan. 1, 2020	\$ 20,422
Depreciation recognized	20,509
Decrease	(1,559)
Balance on Dec. 31, 2020	<u>\$ 39,372</u>
Balance on Jan. 1, 2019	\$ -
Depreciation recognized	20,422
Balance on Dec. 31, 2019	<u>\$ 20,422</u>
Book value:	
Dec. 31, 2020	<u>\$ 11,270</u>
Dec. 31, 2019	<u>\$ 28,999</u>

i. Short-term borrowings

The details of the short-term borrowings of the Company are as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Unsecured banking facilities	\$ -	<u>130,000</u>
Unused credit line	<u>\$ 1,900,000</u>	<u>1,470,000</u>
Range of interest rate	<u>-</u>	<u>0.8953~0.8956%</u>

No asset of the Company was pledged for bank loans as of Dec. 31, 2020 and 2019.

Please refer to Note 6 (20) for information on the risk exposed to interest rate, foreign currency and liquidity of the Company.

j. Bonds payable

Bonds payable of the Company are as follows:

	<u>2020.12.31</u>
Amount of unsecured convertible bonds initially issued	\$ 710,553
Unamortized balance of discount on corporate bonds payable	(5,136)
Cumulative converted amount	<u>(530,377)</u>
Bonds payable due	<u>\$ 175,040</u>
Embedded derivatives-right of redemption (presented in financial assets at fair value through profit or loss)	<u>\$ 373</u>
Equity components - right of conversion (presented in Capital surplus-right of subscription)	<u>\$ 4,775</u>
	<u>2020</u>
Interest expense	<u>\$ 5,465</u>

<u>Item</u>	<u>First domestic unsecured convertible bonds</u>
1) Total amount of bonds issued	NT\$ 700,000 thousand
2) Face value	100 thousand
3) Issuance period	2020.2.10~2023.2.10
4) Term of bonds	3 years
5) Nominal interest rate	0%
6) Repayment upon maturity	At maturity of the convertible bonds, the Company will make a lump sum payment in cash on the face value of the bonds plus interest (101.5075% of the face value with actual ROI of 0.5%).
7) Ways of Redemption	a) During the period from the date following three months of the bonds issue to 40 days before the maturity date, when the closing price of the

Company's ordinary shares at the business premises of a securities firm exceeds the conversion price by more than 30 (inclusive) percent for 30 consecutive business days, the Company may redeem all convertible bonds outstanding at a price equivalent to their face value in cash in 30 business days thereafter.

- b) During the period from the date following three months of the bonds issue to 40 days before the maturity date, when the amount of the convertible bonds outstanding is lower than 10% of total value of bonds issued, the Company may redeem all convertible bonds outstanding at a price equivalent to their face value in cash at any time thereafter.
- c) Where a bondholder fails to respond to the Company's stock affairs agency in writing before the base date stated in the "bond recalling notice," the Company shall redeem the convertible bonds held by the bondholder in cash at the price equivalent to their par value within five business days after the base date of recalling the bonds.

8) Conversion period      The bondholders may, from the day following 3 months after such convertible bond are issued to the maturity date, except for when the ownership transfer of ordinary shares are terminated from transferring by law, from 15 days prior to the date of the termination of the ownership transfer of the Company's stock dividends, cash dividends, or cash capital increase subscription to the base date of the distribution of rights, or from the date of the capital reduction to one day before the start of the trading day of the capital reduction for issuance of new shares, file a request to the Company's stock affairs agency through trading securities firms, while informing the Taiwan Depository & Clearing Corporation, to convert the convertible bonds held into the Company's ordinary shares in accordance with regulations.

9) Conversion price and adjustment      The price of conversion was set at NT\$104.1 per share during issuance. In the event of an adjustment of the conversion price of the Company's ordinary share in accordance with the terms of the issuance, the conversion price shall be adjusted in accordance with the formula stipulated in the terms of the issuance. The conversion price was changed to NT\$102.4 per share on Aug. 4, 2020.

k. Lease liabilities

Book values of lease liabilities of the Company are as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Current	<u>\$ 10,304</u>	<u>20,262</u>
Non-current	<u>\$ 1,066</u>	<u>8,896</u>

Please refer to Note 6 (20) Financial instruments for details of maturity analysis.

The amounts recognized in profit or loss are as follows:

	<u>2020</u>	<u>2019</u>
Interest expense of lease liabilities	<u>\$ 224</u>	<u>442</u>
Short-term lease expenses	<u>\$ 2,016</u>	<u>2,035</u>
Expense for leases of low-value assets	<u>\$ 6</u>	<u>69</u>

The amounts recognized in the statements of cash flows are:

	<u>2020</u>	<u>2019</u>
Total cash outflow of lease	<u>\$ 22,814</u>	<u>23,251</u>

1) Lease of buildings and structures

The Company leases buildings and structures for office purpose with a term of 2 to 3 years generally, some leases include an option to renew the lease for another term of same length with the original lease upon expiration.

Some leases set forth that the Company shall pay taxes for the lesser in advance, and such payment occurs once a year generally.

The Company anticipates that the ratios of fixed and variable rents for future years will be roughly the same as those in this reporting period.

1. Employee benefits

As per the defined contribution scheme of the Company developed according to regulations on employee pension, a contribution of 6% of monthly salary of each employee is made to their personal pension account registered at the Bureau of the Labor Insurance. Under this scheme, the Company has no legal or constructive obligation to pay additional expenses after making contributions of fixed amount to the the Bureau of the Labor Insurance.

The cost of the pension contributions to the Bureau of Labor Insurance under this scheme for 2020 and 2019 amounted to NT\$ 8,081 thousand and NT\$ 7,732 thousand, respectively.



m. Income tax

1) Income tax expenses

Income tax expenses of the Company are as follows:

	<u>2020</u>	<u>2019</u>
Current income tax expenses		
Incurred in current reporting period	\$ 72,031	64,612
Deferred tax expenses		
Origination and reversal of temporary differences	<u>12,494</u>	<u>2,498</u>
Income tax expenses	<u><b>\$ 84,525</b></u>	<u><b>67,110</b></u>

The reconciliation of income tax expenses and income before income tax is as follows:

	<u>2020</u>	<u>2019</u>
Income before income tax	<u><b>\$ 456,878</b></u>	<u><b>356,090</b></u>
Income tax at the Company's domestic tax rate	\$ 91,375	71,218
Non-deductible expenses	(4,873)	(3,788)
Book-tax difference	(6,276)	(6,177)
Difference verified	3,125	4,403
Surtax on unappropriated earnings	2,369	4,158
Investment allowances	<u>(1,195)</u>	<u>(2,704)</u>
Total	<u><b>\$ 84,525</b></u>	<u><b>67,110</b></u>

2) Deferred tax assets and liabilities recognized

Changes in deferred tax assets (liabilities) are as follows:

	<u>Loss on inventory valuation</u>	<u>Unrealized profit and loss from exchange</u>	<u>Others</u>	<u>Total</u>
<b>Balance on Jan. 1, 2020</b>	\$ 1,780	2,610	(4,275)	115
(Debit) Credit Income Statement	<u>893</u>	<u>(2,283)</u>	<u>(11,104)</u>	<u>(12,494)</u>
<b>Balance on Dec. 31, 2020</b>	<u><b>\$ 2,673</b></u>	<u><b>327</b></u>	<u><b>(15,379)</b></u>	<u><b>(12,379)</b></u>
<b>Balance on Jan. 1, 2019</b>	\$ 2,735	(387)	265	2,613
(Debit) Credit Income Statement	<u>(955)</u>	<u>2,997</u>	<u>(4,540)</u>	<u>(2,498)</u>
<b>Balance on Dec. 31, 2019</b>	<u><b>\$ 1,780</b></u>	<u><b>2,610</b></u>	<u><b>(4,275)</b></u>	<u><b>115</b></u>

3) Income tax examination

Operating income tax declarations of the Company through 2018 have been filed to the tax authority for examination.

n. Capital and other equity

As of December 31, 2020 and 2019, the total nominal share capital of the Company amounted NT\$ 1,000,000 thousand with 1000,000 thousand shares of par value of NT\$ 10. The Company has issued 73,068 thousand ordinary shares and 68,036 thousand other shares, received stock capital for all shares issued.

Changes in the number of outstanding shares in 2020 and 2019 are as follows:

(presented in thousands shares)	<b>Ordinary shares</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance on Jan. 1	67,826	67,433
Exercise of employee share options	-	393
Conversion of convertible bonds	<u>5,032</u>	<u>-</u>
Ending balance on Dec. 31	<u><b>72,858</b></u>	<u><b>67,826</b></u>

1) Issuance of ordinary shares

In 2020, the Company issued 5,032 thousand new shares due to the conversion rights of convertible bonds exercised by bondholders. The shares were issued in denominations with a total amount of NT\$ 50,321 thousand and all shares were registered as required by law.

2) Capital surplus

Balance of the Company's capital surplus is as follows:

	<b>2020.12.31</b>	<b>2019.12.31</b>
Share Premium	\$ 1,392,532	919,344
Treasury share transactions	15,082	15,082
Right to subscribe convertible bonds-	<u>4,775</u>	<u>-</u>
	<u><b>\$ 1,412,389</b></u>	<u><b>934,426</b></u>

Capital surplus shall be allocated to new shares or cash with realized capital surplus in proportion to original shareholdings of shareholders after loss is covered. The above-mentioned realized capital surplus includes amount in excess of the nominal value during shares issuance and acceptance of bestowal. In accordance with the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers," the total of capital surplus appropriated for capital every year shall not exceed 10% of the paid-in capital.

3) Retained earnings

According to the Articles of Association of the Company, where the Company has a profit at the end of each fiscal year, the Company shall first allocate the profit to cover accumulated losses and allocate 10% of the remaining net earnings as the Company's legal reserve unless and until the accumulated legal reserve reaches the Company's paid-in capital. Certain amount shall be further allocated as special reserve or the special reserve shall be reversed in accordance with applicable laws and regulations or

as requested by the competent authority. The balance (if any) together with unappropriated earnings at the beginning of the reporting period can be distributed after the distribution plan proposed by the Board and approved by the shareholders' meeting.

The dividend of the shareholders of the Company can be distributed in cash or shares, the amount of such dividends shall be no less than 10% of surplus after tax of the year, and dividends in cash shall account for at least 10% of total dividends of the shareholders. The Company is at a growing stage. Division of such surplus depends on future needs for capital and long-term operation planning of the Company. The Board of Directors should develop surplus distribution plan based on equities of shareholders, balance of dividend policies and planning for needs for capital, and propose it to the shareholders' meeting for resolution and adjustment.

a) Legal reserve

If there is no loss, the Company may, by resolution of the shareholders' meeting, distribute new shares or cash from legal reserves, but legal reserves distributed cannot exceed 25 percent of the paid-in capital.

b) Special reserve

Pursuant to FSC-1010012865 Order issued on April 6, 2012, when distributing earnings available for distribution, the Company shall make a special reserve from the current profit and loss and the unappropriated earnings of the previous year by deducting the net amount of other shareholders' equity in the accounts incurred in the current year. If the amount of other shareholders' equity accumulated in the preceding period is reduced, the special reserve set aside from the unappropriated earnings in the preceding period shall not be distributed. If other shareholders' equity deductions are reversed afterward, the reversal may be applicable for distribution of earnings.

c) Surplus distribution

The plans for distribution of earnings for 2019 and 2018 were passed at the shareholders' meetings held on June 16, 2020 and June 5, 2019, respectively. Dividends paid to owners of the Company are as follows:

	<b>2019</b>		<b>2018</b>	
	<b>Dividends Paid to Per Share (NT\$)</b>	<b>AMOUNT</b>	<b>Dividends Paid to Per Share (NT\$)</b>	<b>AMOUNT</b>
Dividends distributed to owners of ordinary shares:				
Cash	\$ 2.82	<u>203,477</u>	3.50	<u>236,014</u>

4) Treasury stocks

- a) The treasury shares that the Company redeemed from employees to which shares of the Company were transferred to according to Article 28-2, Securities and Exchange Act totaled 603 thousand shares with total redemption price of NT\$ 51,269 thousand. Changes in treasury shares in 2020 and 2019 are as follows:

	<b>The number of shares (thousand shares)</b>	<b>AMOUNT</b>
Balance on Dec. 31, 2020 (Same with Jan. 1, 2020)	<u><b>210</b></u>	<u><b>\$ 17,856</b></u>
Jan. 1, 2019	603	\$ 51,269
Exercise of employee share options	<u>(393)</u>	<u>(33,413)</u>
Dec. 31, 2019	<u><b>210</b></u>	<u><b>\$ 17,856</b></u>

- b) Treasury shares held by the Company may be neither pledged nor carry rights of shareholders before assignment in accordance with the Securities and Exchange Act.

5) Other equity (Net equity after tax)

	<b>Exchange differences on translating the financial statements of foreign operations</b>	<b>Estimated unrealized profit and loss on financial assets at fair value through other comprehensive income</b>	<b>Total</b>
Jan. 1, 2020	\$ (22,299)	(10,450)	(32,749)
Exchange differences on translating the net assets of foreign operations	<u>2,681</u>	<u>-</u>	<u>2,681</u>
Balance on Dec. 31, 2020	<u><b>\$ (19,618)</b></u>	<u><b>(10,450)</b></u>	<u><b>(30,068)</b></u>
Jan. 1, 2019	\$ (13,067)	-	(13,067)
Estimated unrealized profit (loss) on financial assets at fair value through other comprehensive income	-	(10,450)	(10,450)
Exchange differences on translating the net assets of foreign operations	<u>(9,232)</u>	<u>-</u>	<u>(9,232)</u>
Balance on Dec. 31, 2019	<u><b>\$ (22,299)</b></u>	<u><b>(10,450)</b></u>	<u><b>(32,749)</b></u>

o. Share-based payment

No share-based payment occurred within the Company in 2020, and share-based payments as of Dec. 31, 2019 are as follows:

	<u>Delivery of equities</u>
	<u>Treasury shares transferred to employees</u>
Grant date	2019.12.6
The number of shares granted	393 thousand shares
Contract term	-
Granted to	All employees
Vesting conditions	Immediate vesting

1) Measurement parameters of fair value on the date transferred

The Company adopts the Black-Scholes option pricing model to estimate the fair value of share-based payment at date transferred. The input value of this model is as follows:-

	<u>2019</u>
	<u>Treasury shares transferred to employees</u>
Fair value on the grant date (NT\$)	95.50
Share price on the grant date (NT\$)	95.50
Grant price (NT\$)	85.02

The determination of fair value does not take into account the services and non-market performance conditions included in the transaction.

2) Information on methods used in transfer of treasury shares

Details of methods used in transfer of treasury shares are as follows:

(presented in thousands shares)

	<u>2019</u>	
	<u>Treasury shares transferred to employees</u>	
	<u>Weighted Average Striking Price (NT\$)</u>	<u>Number of stock options</u>
Outstanding as of January 1	\$ -	-
Granted in this period	85.02	393
Lost in this period	-	-
Number of executions in this period	(85.02)	<u>(393)</u>
Outstanding as of December 31	-	<u>-</u>
Executable stock options on December 31	-	<u>-</u>

3) Employee expenses

Remuneration recognized, arising from transfer of treasury shares to employees, in 2019 amounted to NT\$ 4,119 thousand.

p. Earnings per share

The amounts of basic earnings per share and diluted earnings per shares of the Company are as follows:

	<u>2020</u>	<u>2019</u>
<b>Basic earnings per share</b>		
Net profit attributable to owners of ordinary shares the Company	\$ <u>372,353</u>	<u>288,980</u>
Weighted average number of outstanding ordinary shares (thousand shares)	<u>70,369</u>	<u>67,460</u>
Basic earnings per share (NT\$)	<u>\$ 5.29</u>	<u>4.28</u>
<b>Diluted earnings per share (NT\$)</b>		
Net profit attributable to owners of ordinary shares the Company	\$ 372,353	288,980
Impact of potentially diluted ordinary shares		
Conversion of convertible bonds	<u>2,272</u>	<u>-</u>
Net profit attributable to owners of (diluted) ordinary shares the Company	<u>\$ 374,625</u>	<u>288,980</u>
Weighted average number of outstanding (basic) ordinary shares (thousand shares)	70,369	67,460
Impact of potentially diluted ordinary shares (thousand shares)		
Share-based remuneration for employees	117	123
Conversion of convertible bonds	<u>1,815</u>	<u>-</u>
Weighted average number of outstanding (diluted) ordinary shares (thousand shares)	<u>72,301</u>	<u>67,583</u>
Diluted earnings per share (NT\$)	<u>\$ 5.18</u>	<u>4.28</u>

q. Revenue from contracts with customers

1) Breakdown of revenue

	<u>2020</u>	<u>2019</u>
Major regional markets:		
Taiwan	\$ 72,937	93,508
Asia	1,647,915	1,549,061
America	1,349,265	1,045,395
Europe	749,151	641,530
Africa	-	932
Australia	2,166	-
	<u><u>\$ 3,821,434</u></u>	<u><u>3,330,426</u></u>
Main products/services:		
Communication products	\$ 3,231,421	2,478,785
Hosts of communication equipment	250,588	238,335
Other communication products	339,425	613,306
Total	<u><u>\$ 3,821,434</u></u>	<u><u>3,330,426</u></u>

2) Contract balance

	<u>2020.12.31</u>	<u>2019.12.31</u>	<u>108.1.1</u>
Notes receivable and trades receivable	\$ 826,994	789,421	1,055,746
Less: loss allowance	(880)	(820)	(820)
Total	<u><u>\$ 826,114</u></u>	<u><u>788,601</u></u>	<u><u>1,054,926</u></u>

Please refer to Note VI(II) for details of notes and trades receivable as well as their impairment.

r. Remuneration to employees and directors

Pursuant to the Articles of Association, the Company shall allocate 2%-5% of profit (if any) for remuneration to employees, and a maximum of 2% profit (if any) for remuneration to directors. When there are accumulated losses, the Company shall retain profit for loss recovery before distribution of remuneration. The above remuneration to the employees may be allotted in cash or stock to eligible employees at subsidiaries. The above remuneration to the directors shall be paid in cash.

Appropriated remuneration to employees and directors of the Company is as follows:

	<u>2020</u>	<u>2019</u>
Remuneration to employees	\$ 12,000	10,000
Remuneration to directors	3,600	3,200
	<u><u>\$ 15,600</u></u>	<u><u>13,200</u></u>

It is estimated on the basis of the Company's net profit before deducting the remuneration to employees and directors for each period multiplied by the proportion of the remuneration to employees and directors as stipulated in the Articles of Association, and is recognized as the operating costs or expenses for the period.

For differences between amount of remuneration actually paid to employees and directors and remuneration to employees and directors listed in parent company only financial statements in 2019 and 2018, the Company has recognized such differences as profit and loss in the subsequent year using the methods applicable to changes in accounting valuation. The differences in amount are as follows:

	2019		2018	
	Remuneration to employees	Remuneration to directors	Remuneration to employees	Remuneration to directors
Amount recognized in financial statements	\$ 10,000	3,200	10,000	4,000
Amount actually paid upon approval by the Board of Directors through resolution	<u>10,000</u>	<u>3,200</u>	<u>10,000</u>	<u>3,200</u>
Difference in amount	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>800</u>

Please visit public information observation station for relevant information.

s. Non-operating income and expenses

1) Interest income

The details of interest income of the Company are as follows:

	2020	2019
Interest on bank deposit	<u>\$ 2,256</u>	<u>3,399</u>

2) Other income

The details of other income of the Company are as follows:

	2020	2019
Income from testing services and cargo transportation premium	\$ 9,269	6,508
Other income	<u>1,291</u>	<u>1,605</u>
	<u>\$ 10,560</u>	<u>8,113</u>



3) Other gains and losses

The details of other gains and losses of the Company are as follows:

	<u>2020</u>	<u>2019</u>
Loss on foreign currency exchange	\$ (9,683)	(11,704)
Gains on financial assets at fair value through profit or loss	<u>2,214</u>	<u>-</u>
Other net gains and losses	<u><b>\$ (7,469)</b></u>	<u><b>(11,704)</b></u>

4) Finance costs

Details of financial costs of the Company are as follows:

	<u>2020</u>	<u>2019</u>
Interest expense		
Bank loans	\$ (149)	(319)
Bonds payable	(5,465)	-
Lease liabilities	<u>(224)</u>	<u>(442)</u>
Net finance costs	<u><b>\$ (5,838)</b></u>	<u><b>(761)</b></u>

t. Financial instruments

1) Credit risk

a) Maximum credit risk exposure

The book value of financial assets represents the maximum credit risk exposure amount.

b) Credit risk concentration

Trades receivable and notes receivable are major sources of potential credit risks facing the Company. In order to reduce the credit risk of trades receivables, the Company continuously assesses the financial conditions of its clients and requires them to provide collaterals or guarantees when necessary. The Company still regularly evaluates the possibility of recovery of trades receivable and provides the allowance for bad debts, also the loss of bad debts is within the expectation of the management. 63.47% and 50.78% of balance of trades receivable for the years ended on December 31, 2020 and 2019 respectively, were composed of 3 clients. This causes credit risk concentration.

c) Credit risk of trades receivables

Please refer to Note VI (II) for information on the credit risk exposure of notes receivables and trades receivables. Other financial assets measured at amortized cost include trades receivable and fixed deposit certificates.

The above-mentioned financial assets have low credit risk, so the allowance loss is measured based on the amount of twelve-month expected credit loss the period (please refer to Note 4 (6) for details on how the Company determines the level of credit risk). There is no allowance for losses on other receivables in 2020 and 2019.

## 2) Liquidity risk

The following table shows the contractual maturity of financial liabilities, including impact of estimated interest.

	<u>Book value</u>	<u>Cash flow of the contracts</u>	<u>Less than 6 months</u>	<u>6-12 months-</u>	<u>12 years-</u>	<u>25 years-</u>	<u>Over 5 years</u>
<b>Dec. 31, 2020</b>							
Non-derivative financial liabilities							
Notes payable and trades payable (including those to related parties)	\$ 614,002	614,002	614,002	-	-	-	-
Other payables (including those to related parties)	99,126	99,126	99,126	-	-	-	-
Lease liabilities	11,370	11,421	9,636	714	1,071	-	-
Conversion of convertible bonds	<u>175,040</u>	<u>175,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>175,040</u>	<u>-</u>
Total	<u><b>\$ 899,538</b></u>	<u><b>899,589</b></u>	<u><b>722,764</b></u>	<u><b>714</b></u>	<u><b>1,071</b></u>	<u><b>175,040</b></u>	<u><b>-</b></u>
<b>Dec. 31, 2019</b>							
Non-derivative financial liabilities							
Short-term borrowings	\$ 130,000	130,992	75,815	55,177	-	-	-
Notes payable and trades payable (including those to related parties)	554,999	554,999	554,999	-	-	-	-
Other payables (including those to related parties)	83,694	83,694	83,694	-	-	-	-
Lease liabilities	<u>29,158</u>	<u>29,523</u>	<u>13,177</u>	<u>13,591</u>	<u>2,755</u>	<u>-</u>	<u>-</u>
Total	<u><b>\$ 797,851</b></u>	<u><b>799,208</b></u>	<u><b>727,685</b></u>	<u><b>68,768</b></u>	<u><b>2,755</b></u>	<u><b>-</b></u>	<u><b>-</b></u>

The Company does not expect that the cash flow for the due date analysis will occur significantly earlier or that the actual amount may vary significantly.

## 3) Exchange Rate Risk

### a) Exposure to Exchange Rate Risk

The Company's financial assets and liabilities exposing to significant exchange rate risk are as follows:

	<b>2020.12.31</b>			
	<u>Foreign Currency</u>	<u>Exchange Rate</u>		<u>NTD</u>
<u>Financial assets</u>				
Monetary items				
USD	\$ 34,461	USD/NTD=	28.48	981,449
JPY	313,849	JPY/NTD=	0.2763	86,716
<u>Financial liabilities</u>				
Monetary items				
USD	14,910	USD/NTD=	28.48	424,637

**2019.12.31**

<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>		
Monetary items		
USD	\$ 35,839 USD/NTD= 29.98	1,074,453
JPY	102,663 JPY/NTD= 0.276	28,335
<u>Financial liabilities</u>		
Monetary items		
USD	13,599 USD/NTD= 29.98	407,698

b) Sensitivity Analysis

Cash and cash equivalents, trades receivables and other receivables denominated in foreign currency, trades receivables and other receivables are major sources of foreign exchange risks monetary items of the Company exposed to, and such risks arise from foreign currency exchange during translation. If the NT dollar depreciates or appreciates by 10% against the US dollar and the Japanese yen on Dec. 31, 2019, and all other factors remain unchanged, the net profit after tax will increase or decrease by NT\$51,482 thousand and NT\$55,607 thousand respectively for 2020 and 2019 on the same basis of analysis.

c) Exchange gain/loss of monetary items

As the Company deals in diverse foreign currencies, gains or losses on foreign currency exchange of monetary items were summarized as a single amount. Profit (loss) on foreign currency exchange (including realized and unrealized) for 2020 and 2019 are NT\$ (9,683) thousand and NT\$ (11,704) thousand respectively.

4) Interest Rate Analysis

The interest risk exposure from financial assets and liabilities of the Company has been disclosed in this Parent Company Only Financial Statements' note of liquidity risk management.

The sensitivity analysis below is prepared based on the risk exposure of derivative and non-derivative instruments on the reporting date. For liabilities at floating interest rates, the analysis assumes that they are outstanding throughout the reporting period if they are outstanding on the reporting date. The rate of change used internally to report interest rates to key management is a 1% increase or decrease in interest rates, and this figure also represents the management's assessment on the reasonably possible scope of the interest rate.

If interest rate increases/decreases by 1% and other variables remain unchanged, the Company's profit after tax for 2020 and 2019 will decrease and increase by NT\$ 0 thousand and NT\$ 1,040 thousand respectively.

5) Information on fair value

a) Category of financial instruments and fair value

The book value and fair value of various types of financial assets and financial liabilities (including fair value level information, but the book value of financial instruments not measured at fair value is a reasonable approximation, and the fair value of equity instrument investment without quotation in the active market that

cannot be reliably measured, the fair value is not required to be disclosed according to regulations) are listed as follows:

<b>2020.12.31</b>					
	<b>Book value</b>	<b>Fair value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets at fair value through profit or loss</b>					
Financial assets at fair value through profit or loss	\$ 14,400	-	-	14,400	14,400
Recognized as financial assets at fair value through profit or loss	373	-	373	-	373
<b>Total</b>	<b>\$ 14,773</b>	<b>-</b>	<b>373</b>	<b>14,400</b>	<b>14,773</b>
<b>Financial assets at fair value through other comprehensive income</b>					
<b>Equity instrument at fair value without quotation in market</b>	<b>\$ 8,000</b>	<b>-</b>	<b>-</b>	<b>8,000</b>	<b>8,000</b>
<b>Financial assets at amortized cost</b>					
Cash and cash equivalents	\$ 465,892	-	-	-	-
Notes receivable and trades receivable (including those from related parties)	826,114	-	-	-	-
Other receivables (including those from related parties)	75,790	-	-	-	-
Other current assets	1,037	-	-	-	-
Refundable deposits	238	-	-	-	-
<b>Total</b>	<b>\$ 1,369,071</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities at amortized cost</b>					
Notes payable and trades payable (including those to related parties)	\$ 614,002	-	-	-	-
Other payables (including those to related parties)	99,126	-	-	-	-
Lease liabilities	11,370	-	-	-	-
Conversion of convertible bonds	175,040	-	175,040	-	175,040
<b>Total</b>	<b>\$ 899,538</b>	<b>-</b>	<b>175,040</b>	<b>-</b>	<b>175,040</b>

2019.12.31

	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at amortized cost</b>					
Cash and cash equivalents	\$ 410,003	-	-	-	-
Notes receivable and trades receivable (including those from related parties)	788,601	-	-	-	-
Other receivables (including those from related parties)	81,097	-	-	-	-
Other current assets	1,032	-	-	-	-
Refundable deposits	151	-	-	-	-
<b>Total</b>	<b>\$ 1,280,884</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities at amortized cost</b>					
Short-term borrowings	\$ 130,000	-	-	-	-
Notes payable and trades payable (including those to related parties)	554,999	-	-	-	-
Other payables (including those to related parties)	83,694	-	-	-	-
Lease liabilities	29,158	-	-	-	-
<b>Total</b>	<b>\$ 797,851</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

b) Valuation techniques of financial instruments measured at fair value

Fair value of financial instrument is obtained through application of valuation techniques or reference to quotation from counterparties. The fair value obtained through application of evaluation techniques may be calculated by reference to the current fair value of other financial instruments with similar material conditions and characteristics, use of the discounted cash flow method, or by other evaluation techniques, including using models based on available market information on the reporting date.

c) Information on quantitative fair value of significant unobservable inputs (Level 3)

Level 3 fair value measurement, as defined by the Company, refers to financial assets at fair value through profit or loss -investment in private equity.

Level 2 fair value measurement, as defined by the Company, refers to significant unobservable input List of information on quantitative fair value of significant unobservable inputs:

<u>Item</u>	<u>Valuation techniques</u>	<u>Significant unobservable inputs</u>	<u>Relationship between significant unobservable inputs and fair value</u>
Financial assets at fair value through profit or loss-investment in private equity.	Net asset valuation	Net asset value	N/A

- d) Sensitivity analysis of reasonably possible alternative assumptions on fair value measurements at Level 3

The Company's valuation of the fair value of financial instruments is reasonable, but the use of different valuation models or parameters may lead to different results. For financial instrument at Level 3, if there are changes in valuation parameters, the impact on current profit and loss is as follows:

	<u>Input</u>	<u>Upwards or downwards change</u>	<u>Changes of fair value are reflected in the current profit or loss</u>	
			<u>Positive change</u>	<u>Negative change</u>
<b>Dec. 31, 2020</b>				
Financial assets at fair value through profit or loss				
Investment in private equity	14,400	1%	144	(144)

u. Financial Risk Control

1) Summary

The Company is exposed to the following risks arising from use of financial instruments:

- a) Credit risks
- b) Liquidity Risks
- c) Market Risks

This note presents information about the Company's exposure to each of the above risks, the Company's purpose, policies and procedure of risk measurement and control. Please refer to relevant notes to the Financial Statements for details of further quantitative disclosure.

2) Purpose of Risk Control

The purpose of risk control of the Company is to control exchange rate risks, interest rate risks, credit risks and liquidity risks related to operating activities. To reduce

related financial risks, the Company is committed to identifying, assessing and avoiding market uncertainties, so as to reduce potentially unfavorable impact of market changes on its financial performance.

The Company's major financial activities are reviewed and approved by the Board of Directors and the internal control system. While the financial plan is underway, the Company shall comply with relevant financial operation procedures on the overall financial risk control and segregation of duties at all times.

3) Credit risks

Credit risks refer to risks that cause financial loss of the Company due to a counterparty's failure to perform contractual obligations. Trades receivable arising from operating activities are major sources of credit risks facing the Company. Operation-related credit risks and financial credit risks are controlled separately.

Operation-related credit risks

To maintain the quality of trades receivable, the Company has established the procedures for control of operation-related credit risks. Risk assessment on individual clients includes factors that could affect clients' ability to pay, such as financial conditions, rating by a credit rating institution, transaction history and current financial resources. The Company may also use certain credit risk reduction tools, such as prepaid payments or credit insurance, when appropriate, to reduce the credit risk of specific clients.

Financial credit risks

The credit risks of bank deposits and other financial instruments are measured and monitored by the Finance Department of the Company. The Company's counterparties and other performing parties are banks with good credit ratings and financial institutions with investment grade and above, corporate organizations and government agencies without significant performance concerns, and thus there is no material credit risks.

4) Liquidity risks

Liquidity risks refer to risks that the Company is unable to deliver cash or other financial assets to pay off its financial liabilities and fail to meet its obligations.

The method of the Company adopts for managing liquidity lies in ensuring sufficient working capital to pay for due liabilities under normal and pressing circumstances so as to avoid unacceptable losses or risk of damage to goodwill. In addition, the unused loan amounts of the Company as of 31 Dec., 2020 and 2019 totaled NT\$1,900,000 thousand and NT\$1,470,000 thousand, respectively.

5) Market risks

Market risks refer to risks that changes in market prices, such as exchange rate, interest rate, and equity instrument price, will affect the earnings of the Company or the value of the financial instruments held by the Company. The purpose of market risk control is to maximize return on investment by keeping market risks the Company exposed to at an acceptable level.

To control market risks, the Company follows instructions of the Board of Directors in all transactions.

a) Exchange rate risks

The Company's cash inflows and outflows are partially in foreign currencies, so

some risks can be avoided. The purpose of the Company's control of exchange rate risks is to avoid risk rather than making profit.

The exchange rate risk control strategy is to periodically review net parts of assets and liabilities in various currencies and to control their risks. The selection of tools to avoid exchange rate risks depends on the cost and duration of risk avoiding.

b) Interest rate risks

The Company holds assets and liabilities with floating rates, resulting in exposure of the Company to cash flow interest rate risks. Assets and liabilities with floating rates of the Company have been disclosed in this Financial Statements' note of liquidity risk management.

v. Capital Management

The Company, based on current features of industry and development prospect of the Company, along with factors like changes in the external environment, develops a plan for future needs for working capital, R&D costs and dividend to shareholders, to ensure that the Company can continue its operation, reward shareholders while not ignoring interests of other stakeholders, and maintains the best capital structure to enhance shareholder value in the long run.

In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders by issuing new shares, distributing cash to shareholders or redeeming its shares.

The Company monitors its capital by regular review of the ratios of liabilities and assets. The Company's capital is represented by "total equity" as indicated in the balance sheets, which is also equal to total assets less total liabilities.

Ratios of liabilities and assets of the Company as of Dec. 31, 2020 and 2019 are as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Total liabilities	\$ 1,023,627	882,289
Less: Cash and cash equivalents	<u>465,892</u>	<u>410,003</u>
Net liabilities	<u>\$ 557,735</u>	<u>472,286</u>
Total Equity	<u>\$ 3,077,447</u>	<u>2,525,390</u>
Ratios of liabilities and assets	<u>18.12%</u>	<u>18.70%</u>



## 7. Related-party Transactions

- a. The parent company and the ultimate controlling party

Ennoconn Corporation (Ennoconn), as the parent company of the Company and the ultimate controller of the group, holds 27.37% of the outstanding ordinary shares of the Company. Ennoconn has prepared consolidated financial statements for public use.

- b. Names of related parties and relations

During the reporting period of these financial statements, related parties engaged in transactions with the Company are as follows:

<u>Related Party</u>	<u>Relations with the Company</u>
Ennoconn	The Company's parent company
CASO, INC.	The Company's subsidiary
Beijing Caswell Ltd.	The Company's subsidiary
CASWELL INTERNATIONAL INVESTMENT CO., LTD.	The Company's subsidiary
CASWELL AMERICAS, INC.	The Company's subsidiary
APLIGO GMBH	The Company's subsidiary
HAWKEYE TECH, CO., LTD.	The Company's subsidiary
HON HAI PRECISION INDUSTRY CO., LTD.	The Company's affiliate
hecus Technology Corp.	The Company's affiliate
Hon Lin Technology CO., LTD.	The Company's affiliate
Ennoconn (Kunshan) Intelligent Technology Co., Ltd.	The Company's affiliate
Foxconn Interconnect Technology Limited Taiwan Branch (Cayman)	The Company's affiliate
Goldtek Technology Co., Ltd.	The Company's affiliate
WT Microelectronics Co., Ltd.	The Company's affiliate
Thecus NL B.V.	The Company's affiliate
Highaim Technology Inc.	The Company's affiliate
FORTUNE BAY TECHNOLOGY PTE. LTD.	The Company's affiliate
All directors, general manager and deputy general manager and other major officers in management of the Company	

- c. Substantial Transaction with Related Party

- 1) Operating revenue

The amount of goods and services sold by the Company to related parties are as follows:

	<u>2020</u>	<u>2019</u>
Parent company	\$ 48	2
Subsidiaries	522,368	462,605
Other related parties	4,738	11,410
	<u>\$ 527,154</u>	<u>474,017</u>

The terms and conditions of sale to the above companies are not significantly different from the common selling prices. Payment term: o/A 60-100 days, or net 30-60 days. Trades receivable among the related parties, for which no collateral security has been

received, do not need to be recognized as expected credit impairment loss after evaluation.

2) Purchases

The amount of goods and services purchased by the Company from related parties are as follows:

	<u>2020</u>	<u>2019</u>
Parent company	\$ 3,608	-
Subsidiaries	25,275	2,524
Affiliates		
HON HAI PRECISION INDUSTRY CO., LTD.	425,967	565,938
Other affiliates	<u>40,491</u>	<u>25,431</u>
	<u><b>\$ 495,341</b></u>	<u><b>593,893</b></u>

The terms and conditions of purchase from the above companies are not significantly different from purchasing prices from other common suppliers. The payment term of o/A 60-100 days, or net 30-60 days is not significantly different from payment term accepted by other common suppliers.

3) Trades receivables from related parties

The details of the Company's trades receivables from related parties are as follows:

<u>Type of trades</u>	<u>Type of related parties</u>	<u>2020.12.31</u>	<u>2019.12.31</u>
Trade receivables	Beijing Caswell Ltd.	\$ 97,589	79,682
Trade receivables	Subsidiary-others	95,788	97,512
Trade receivables	Affiliates	980	962
Other receivables	Beijing Caswell Ltd.	1,263	15,952
Other receivables	Subsidiary-APLIGO GMBH	23,105	24,257
Other receivables	Subsidiary-others	<u>3,501</u>	<u>1,112</u>
		<u><b>\$ 222,226</b></u>	<u><b>219,477</b></u>

4) Trades payables to related parties

The details of the Company's trades payables to related parties are as follows:

<u>Type of trades</u>	<u>Type of related parties</u>	<u>2020.12.31</u>	<u>2019.12.31</u>
Trade payables	Parent company	\$ 1,174	-
Trade payables	Subsidiaries	418	2,607
Trade payables	Affiliate-HON HAI PRECISION IN DUSTRY CO., LTD.	97,110	46,381
Trade payables	Affiliate-others	12,659	6,707
Other payables	Subsidiaries	1,164	1,272
Other payables	Affiliates	<u>2,267</u>	<u>3,768</u>
		<u><b>\$ 114,792</b></u>	<u><b>60,735</b></u>

5) Loan to related parties

Actual payment of the Company's loans to related parties (recognized as other receivables) is as follows:

	<u>2020</u>	<u>2019</u>
Beijing Caswell Ltd.	\$ -	14,990
Subsidiary-APLIGO GMBH	<u>22,784</u>	<u>23,984</u>
	<u><b>\$ 22,784</b></u>	<u><b>38,974</b></u>

The interest on the Company's loans to related parties is based on the average interest rate of the Company's short-term borrowings from financial institutions in the year of appropriation, and they are all unsecured loans, and no expected credit impairment loss is required to be recognized after evaluation.

6) Acquisition of property, plant and equipment

The prices the Company paid to acquire property, plant and equipment from related parties are as follows:

	<u>2020</u>	<u>2019</u>
Affiliates	<u><b>\$ 545</b></u>	<u>-</u>

The Company purchased mechanical equipment from related parties at a total price of NT\$ 545 thousand in November 2020, as of Dec. 31, 2020, the payment was paid by the Company in full. Refer to Note 6 (7) for more information about property, plant and equipment.

d. Transactions with key management officers

1) Remuneration to key management officers

Remuneration to key management officers includes:

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 20,035	18,687
Retirement benefits	<u>354</u>	<u>272</u>
	<u><b>\$ 20,389</b></u>	<u><b>18,959</b></u>

The Company provides vehicles key management officers. The original costs and period-specific depreciation expenses of such vehicles in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Original cost	<u><b>\$ 7,971</b></u>	<u><b>10,427</b></u>
Depreciation expenses	<u><b>\$ 997</b></u>	<u><b>1,051</b></u>

## 8. Pledged Assets

The book value of the Company's pledged assets are as follows:

Description of asset	Subject of pledge	2020.12.31	2019.12.31
Other current assets (pledged fixed deposits)	Tariff Guarantee	<u>\$ 1,037</u>	<u>1,032</u>

## 9. Significant Contingent Liabilities and Unrecognized Contract Commitments: none

## 10. Significant loss from disasters: none

## 11. Subsequent significant events: none

## 12. Others

Employee Benefits, Depreciation and Amortization Expenses by Function:

By function Type	2020			2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefit expenses						
Salary expense	44,702	159,564	204,266	41,963	139,044	181,007
Employment and medical insurance expenses	3,955	12,774	16,729	3,854	12,096	15,950
Pension expense	1,910	6,171	8,081	1,868	5,864	7,732
Remuneration to directors	-	4,710	4,710	-	4,454	4,454
Other employee benefit expenses	3,425	9,034	12,459	2,973	8,412	11,385
Depreciation expenses	13,487	22,482	35,969	13,588	21,915	35,503
Amortization expense	-	2,651	2,651	-	2,418	2,418

Additional information on the number of employees and employee benefits expenses of the Company in 2020 and 2019 is as follows:

	2020	2019
Number of Employees	<u>269</u>	<u>256</u>
Number of directors who do not serve as employees	<u>6</u>	<u>5</u>
Average employee benefit expenses	<u>\$ 918</u>	<u>861</u>
Average employee salary expenses	<u>\$ 777</u>	<u>721</u>
Adjustments to average employee salary expenses	<u>7.77%</u>	<u>9.57%</u>
Remuneration to supervisors	<u>\$ -</u>	<u>-</u>

The Company's remuneration policy (including remuneration to directors, managers and employees) is as follows:

- a. According to Articles of Association of the Company, the company may pay remuneration to the directors for performing the their duties for the Company. The Remuneration Committee shall evaluate the remuneration according to directors' involvement in and contribution to operation of the Company, taking into account the domestic and international industry standards, and shall make recommendations to the Board of Directors for reference in making decisions.

For the performance evaluation and remuneration of managers, the Remuneration Committee shall take into account the remuneration standard in the industry, workload they are assigned, degree to which their performance objectives are achieved and the rationality of the correlation between business performance and future risks..

Remuneration to employees mainly consists of basic salary and bonus, which is determined based on the employee's experience, professional knowledge and skills, years of professional experience, market conditions, business performance and organizational structure of the Company. The bonus will be adjusted and paid according to the market wage dynamics, individual performance, the overall economic and industrial climate changes, and the government decrees.

### 13. Supplementary Disclosures

- a. Information on Significant Transactions

In accordance with the Regulations Governing the Preparation of Financial statements by Securities Issuers, the Company shall disclose the following information concerning significant transactions in 2020:

- 1) Loans to others :

Unit: NTD/USD thousand

No.	Creditor	Debitor	Transaction	If they are related to each other	Maximum amount of the period	Ending balance	Actual amount drawn	Range of interest rate	Type of loan (Note 1)	Type of business transaction	Necessity for short-term financing	Amount of allowance loss appropriated	Collateral		Loan limit for specific counterparties (Note 2)	Loan limit (Note 3)
													Name	Value		
0	the Company	Beijing Caswell Ltd.	Other receivables	Yes	14,240 (USD500)	-	-	2.00%	1	131,626	N/A	-	-	-	131,626	615,489
0	the Company	APLIGO GMBH	Other receivables	Yes	22,784 (USD800)	(USD800)	(USD800)	2.45%	2	-	Working capital for operation	-	-	-	307,745	615,489

(Note 1): Companies the Company engaged in transactions with.

2. Necessity for short-term financing

(Note 2): 1. The amount of loans to specific companies shall not exceed the total amount of the Company's business transactions with the Company in the most recent year.

2. The amount of loans to specific companies shall not exceed 10% of the net worth of the Company as stated in its latest financial statements audited or reviewed by an accountant.

(Note 3): Total amount of loans shall not be more than 20% of the Company's net worth as stated in its latest financial statement audited or reviewed by an accountant.

- 2) Endorsements/Guarantees Provided for Others: none

3) Marketable Securities Held at the End of the Period (Excluding investment in Subsidiaries, Associates and Joint Ventures):

Unit: NT\$ thousand/thousand shares

Subsidiaries	Type and Name of Securities	Relationship with Issuer of Securities	Ledger Account	Ending Balance				Remarks
				Number of Shares	Book value	Shareholding %	Fair value	
the Company	Zhuo I Erh Investment LP	-	Financial assets at fair value through profit or loss-non-current	-	14,400	- %	14,400	-
the Company	Min Chieh Industrial Holdings Corp.	-	Financial assets at fair value through other comprehensive income-non-current	1,045	-	19.00 %	-	-
the Company	Jui Neng Information Corp.	-	Financial assets at fair value through other comprehensive income-non-current	800	8,000	16.00 %	8,000	-
APLIGO GMBH	shares in Volksbank Karlsruhe	-	Financial assets at fair value through other comprehensive income-non-current	-	11	- %	11	-

4) Marketable Securities Acquired and Disposed of Amounting to NT\$300 Million or 20% of the Paid-in Capital or More:4

Unit: NT\$ thousand

Seller & purchaser	Type and Name of Securities	Ledger Account	Counterparty	Relationship	Beginning of Period		Purchase		Sale				Ending Balance		Remarks
					Number of Shares	AMOUNT	Number of Shares	AMOUNT	Number of Shares	Selling Price	Book value	Profit and loss on Disposal	Number of Shares	AMOUNT	
the Company	HAWKEYE TECH. CO., LTD.	Investments accounted for using the equity method	HAWKEYE TECH. CO., LTD.	Subsidiaries	5,400	405,000	2,787	197,041	-	-	-	-	8,187	602,041	-

5) Acquisition of property amounting to NT\$300 million or 20% of paid-in capital or more: None.

6) Disposal of property amounting to NT\$300 million or 20% of paid-in capital or more: None.

7) Purchases From or Sales to Related Parties Amounting to NT\$100 million or 20% of the Paid-in Capital or More:

Unit: NT\$ thousand

Buyer (seller)	Counter-party	Relationship	Transaction Situation				Unusual Transaction Terms and Reasons		Notes and Trades Receivable (Payable)		Remarks
			Purchases (Sales)	AMOUNT	Ratio to Total Purchase (sales)	Credit Period	Unit price	Credit Period	Balance	Ratio to Total Notes or Trades Receivable (payable)	
the Company	HON HAI PRECISION INDUSTRY CO., LTD.	Affiliates	Purchases	425,967	12.21%	Net 90 days	-	-	(97,110)	(15.82)%	
the Company	Beijing Caswell Ltd.	Subsidiaries	(Sales)	(131,626)	(3.44)%	D/A 90 days	-	-	97,589	11.81%	
Beijing Caswell Ltd.	the Company	Parent company	Purchases	131,626	34.96%	D/A 90 days	-	-	(97,589)	(43.53)%	
the Company	CASO, INC.	Subsidiaries	(Sales)	(144,057)	(3.77)%	OA 70 days	-	-	37,772	4.57%	

Buyer (seller)	Counter-party	Relationship	Transaction Situation				Unusual Transaction Terms and Reasons		Notes and Trades Receivable (Payable)		Remarks
			Purchases (Sales)	AMOUNT	Ratio to Total Purchase (sales)	Credit Period	Unit price	Credit Period	Balance	Ratio to Total Notes or Trades Receivable (payable)	
CASO, INC.	the Company	Parent company	Purchases	144,057	83.50%	OA 70 days	-	(Note)	(37,772)	(93.54)%	
the Company	CASWELL AMERICAS, INC.	Subsidiaries	(Sales)	(217,783)	(5.70)%	D/A 90 days	-	(Note)	53,692	6.50%	
CASWELL AMERICAS, INC.	the Company	Parent company	Purchases	217,783	83.14%	D/A 90 days	-	(Note)	(53,692)	(96.69)%	
APLIGO GmbH	American Industrial Systems Inc.	Affiliates	(Sales)	(251,633)	(54.89)%	OA 60 days	-	(Note)	65,695	57.59%	

(Note): compared against general terms and conditions.

8) Receivables from related parties amounting to NT\$100 million or 20% of paid-up capital or more: None.

9) Derivatives transactions: None.

b. Information on Re-invested Companies

The information on re-investee companies in 2020 (excluding invested companies in Mainland China):

Unit: NT\$ thousand/thousand shares

Name of Investor	Name of Invested Company	Region	Principal Business Activities	Initial Investment Amount		Ending Balance			Profit and loss of Invested Company for the Period	Current Profit (Loss) on Investment Recognized	Remarks
				Ending Balance for the Current Period	End of last year	Number of Shares	%	Book amount (Note)			
the Company	CASO, INC.	Japan	Imports and Sales of Network machines and computer peripherals	27,062	27,062	2	99.00%	67,205	24,938	24,689	Subsidiaries
the Company	CASWELL INTERNATIONAL INVESTMENT CO., LTD.	Samoa	Overseas Investment	101,135	101,135	3,206	100.00%	169,825	27,619	27,619	Subsidiaries
the Company	CASWELL AMERICAS, INC.	U.S.A.	Sales of network communication products	92,460	92,460	3,000	100.00%	51,179	1,637	1,637	Subsidiaries
the Company	APLIGO GMBH	Germany	Hub and SI Service	60,275	32,387	24	66.67%	68,767	14,906	7,882	Subsidiaries
the Company	HAWKEYE TECH, CO., LTD.	Taiwan	Design and manufacturing of computers, network and computing equipment	602,041	405,000	8,187	60.64%	466,301	59,994	22,776	Subsidiaries

(Note): including adjustments for foreign currency translation.

c. Information on investments in mainland China

1) Information on Re-invested Companies in mainland China:

Unit: NTD/USD/RMB thousand

Invested Company in mainland China	Principal Business Activities	Paid-in Capital	Way of Investment (Note 1)	Accumulated Amount of Investments Remitted from Taiwan at Beginning of Period (Note 2)	Amount of Investments Remitted or Repatriated for the Period		Accumulated Amount of Investments Remitted from Taiwan at End of Period (Note 2)	Profit and loss of Invested Company for the Period	The Company's Direct or Indirect Shareholding (%)	Investment Profit (Loss) Recognized for the Period	Book Value of Investments at End of Period	Accumulated Investment Income Repatriated at End of Period
					Remitted	Repatriated						
Beijing Caswell Ltd.	Manufacturing and sales of network communication products	108,224 (USD3,800)	(II)	88,744 (USD3,116)	-	-	88,744 (USD3,116)	33,724	82.00%	27,653	194,297	-

Note 1: There are three ways of investment:

- (1) Direct investment in mainland China.
- (2) Investment in mainland China through a company in another region.
- (3) Others, direct investment in a company in mainland China by subsidiary KAISWAY

(Note 2): the exchange rate at the end of the period is used for foreign currency translation

2) Ceiling on re-investments in Mainland China

Accumulated Amount of Investments Remitted from Taiwan to Mainland China at End of Period	Amount of Investments Authorized by Investment Commission, M.O.E.A.	Ceiling on Amount of Investments in Mainland China as Stipulated by Investment Commission, M.O.E.A.
88,744 (USD3,116)	88,744 (USD3,116)	1,846,468

Exchange rates at the end of the period: USD: 28.48; RMB: 4.377

Average exchange rates: USD: 29.5144; RMB:4.2767

3) Significant Transactions

Please refer to Information relating to "Information on Significant Transactions" for details of significant transactions, direct or indirect, between the Company and its invested companies in mainland China in 2020

d. List of Major Shareholders

Name of Major Shareholders	Shares	The Number of Shares Held	Shareholding %
Ennoconn		20,000,000	27.37%
New Labor Pension Fund gives the second carte blanche to special account for investment of FH in 2008.		4,511,500	6.17%



Note: (1) The information of major shareholders in this table refers to the information calculated by Taiwan Depository & Clearing Corporation (TDCC) on the last business day at the end of each quarter on the total number of ordinary shares and preferred shares (including treasury shares) of the Company held by shareholders which have been delivered with book-entry registration at least 5 percent in total. However, the share capital recorded in the Company's financial statements and the number of shares actually delivered by the Company without physical registration may differ due to calculation basis.

Note: (2) If the above information is about the circumstance that the shareholders have entrusted their shares to the trust institutions, it shall be disclosed by the trustor who opened the trust account with the trustee by the individual trust account. Shareholders shall register their shareholding as insider holding more than 10 percent of the shares in accordance with the Securities and Exchange Act, including the shares held by themselves plus the shares they have entrusted to the trust institutions and have the right to use the trust property. Please refer to the Market Observation Post System for information on insider equity registration.

#### **14. Segment Information**

Please refer to the Consolidated Financial statements for 2020 for details.

**CASwell, Inc.****Statement of Cash and Cash Equivalents****As of December 31, 2020****Unit: NT\$ thousand**

<u>Item</u>	<u>Summary (NT\$ thousand)</u>	<u>Conversion rate</u>	<u>AMOUNT</u>
Working capital			<u>\$ 230</u>
Cash	EUR 4.08	35.02	146
	USD 5.12	28.48	155
	JPY 182.00	0.2763	53
	GBP 1.02	38.90	41
	RMB 1.17	4.377	<u>5</u>
	Subtotal		<u>400</u>
Current deposits			<u>80,638</u>
Deposits in foreign currency	USD 5,511.55	28.48	156,969
	JPY 169,719.78	0.2763	46,894
	EUR 13.01	35.02	446
	GBP 0.04	38.90	<u>1</u>
	Subtotal		<u>204,310</u>
Check deposits			<u>314</u>
Time deposits			<u>180,000</u>
Total			<u><u>\$ 465,892</u></u>

**CASwell, Inc.****Statement of Trades Payable**

As of December 31, 2020

Unit: NT\$ thousand

<u>Client number and name</u>	<u>Summary</u>	<u>AMOUNT</u>
Related Party:		
Beijing Caswell Ltd.	Operating	\$ 97,589
CASWELL AMERICAS, INC.	"	53,692
CASO, INC.	"	37,772
Others (not exceeded 5% of the total balance of this accounting item)	"	<u>5,304</u>
Total		<u><b>\$ 194,357</b></u>
Non-related party:		
Client A	Operating	\$ 225,965
Client B	"	201,184
Client C	"	89,648
Client D	"	41,300
Others (not exceeded 5% of the total balance of this accounting item)	"	74,540
Less: allowance for bad debts	"	<u>(880)</u>
Total		<u><b>\$ 631,757</b></u>

**Statement of Inventories**

<u>Item</u>	<u>AMOUNT</u>	
	<u>Book value (Note)</u>	<u>Net realizable value</u>
Raw materials and consumables	\$ 906,965	920,939
Work-in-process	218,794	218,794
Finished products	<u>655,843</u>	<u>729,087</u>
Total	<u><b>\$ 1,781,602</b></u>	<u><b>1,868,820</b></u>

Note: Net inventories less allowance for loss on inventory write-downs.

**CASwell, Inc.**

**Statement of Changes in Investments Accounted for Using the Equity Method**

**Jan. 1, 2020 - Dec. 31, 2020**

**Unit: NT\$ thousand**

**Unit: Thousand shares**

Name	The number of shares at the beginning of the period	Balance amount	Current		Current		Share of profit or loss of subsidiaries accounted for using the equity method	Unrealized profit on sales	Exchange differences on translating the financial statements of foreign operations	Number of Shares	Shareholding at the end of the period	Amount	Net equity	Guarantee or Pledge
			number of shares	Increase in amount	number of shares	Decrease in amount								
Valuation using the equity method:														
CASO, INC.	2	\$ 42,448	-	-	-	-	24,689	39	29	2	99%	67,205	67,818	None
CASWELL INTERNATIONAL INVESTMENT CO., LTD.	3,206	140,652	-	-	-	-	27,619	(1,823)	3,377	3,206	100%	169,825	194,000	None
CASWELL AMERICAS, INC.	3,000	51,289	-	-	-	-	1,637	1,086	(2,833)	3,000	100%	51,179	54,270	None
HAWKEYE TECH, CO., LTD.	5,400	423,943	2,787	53,707	-	(34,125)(Note)	22,776	-	-	8,187	60.64%	466,301	146,975	None
APLIGO GMBH	13	<u>35,339</u>	11	<u>23,438</u>	-	<u>-</u>	<u>7,882</u>	<u>-</u>	<u>2,108</u>	24	66.67%	<u>68,767</u>	41,800	None
		<u>\$ 693,671</u>		<u>77,145</u>		<u>(34,125)</u>	<u>84,603</u>	<u>(698)</u>	<u>2,681</u>			<u>823,277</u>		

Note: cash dividends received.

**CASwell, Inc.****Statement of Trades Payable**

As of December 31, 2020

Unit: NT\$ thousand

<u>Code and name of manufacturer</u>	<u>Summary</u>	<u>AMOUNT</u>
Related Party:		
HON HAI PRECISION INDUSTRY CO., LTD.	Operating	\$ 97,110
WT Microelectronics Co., Ltd.	"	8,599
Others (not exceeded 5% of the total balance of this accounting item)	"	<u>5,652</u>
Total		<u><b>\$ 111,361</b></u>
Non-related party:		
Manufacturer A	Operating	\$ 145,642
Manufacturer B	"	49,454
Manufacturer C	"	47,845
Manufacturer D	"	44,661
Manufacturer E	"	33,966
Others (not exceeded 5% of the total balance of this accounting item)	"	<u>180,129</u>
Total		<u><b>\$ 501,697</b></u>

**Statement of Other Payables**

<u>Item</u>	<u>AMOUNT</u>
Bonus and Salary	\$ 30,615
Export expenses	6,202
Remuneration to employees	12,000
Service costs	18,889
Payment collected for others	5,798
Others (not exceeded 5% of the total balance of this accounting item)	<u>25,622</u>
Total	<u><b>\$ 99,126</b></u>

**CASwell, Inc.**

**Statement of Operating Revenue**

**Jan. 1, 2020 - Dec. 31, 2020**

**Unit: NT\$ thousand**

<u>Item</u>	<u>QTY (PCS)</u>	<u>AMOUNT</u>
Network communication systems	193,457	\$ 3,231,421
Network communication hosts	65,195	250,588
Other communication products	737,320	<u>339,425</u>
Total		<u><u>\$ 3,821,434</u></u>

**CASwell, Inc.****Statement of Operating Costs****Jan. 1, 2020 - Dec. 31, 2020****Unit: NT\$ thousand**

<b>Item</b>	<b>Subtotal</b>	<b>AMOUNT</b>
Raw Material		
Materials, beginning of period	\$ 907,387	
Add: incoming stock for current period	3,486,939	
Others	7,458	
Less: material stocks at end of period	918,986	
Others	58,940	
Sold	<u>478,620</u>	
Raw material consumed		2,945,238
Director labor expenses		12,536
Manufacturing overheads		<u>85,792</u>
Manufacturing overheads		3,043,566
Add: work-in-process at beginning of period		166,935
Less: work-in-process at end of period		<u>218,794</u>
Costs of finished products		2,991,707
Add: finished products at beginning of period		242,016
Incoming stock for current period		339
Less: finished products at end of period		657,185
Others		<u>15,170</u>
Cost of goods sold		2,561,707
Cost of raw materials sold		478,620
Other operating costs		<u>76,229</u>
Operating costs		<u><b>\$ 3,116,556</b></u>

**CASwell, Inc.****Statement of Operating Expenses****Jan. 1, 2020 - Dec. 31, 2020****Unit: NT\$ thousand**

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<b><u>Item</u></b>	<b><u>Selling and marketing expenses</u></b>	<b><u>General and administrative expenses</u></b>	<b><u>Research and development expenses</u></b>
Salary expenses	\$ 13,585	20,809	79,670
Bonus	5,476	11,248	28,776
Insurance	1,793	2,456	9,654
Export expenses	22,815	-	236
Service fees	23,405	8,269	1,325
Depreciation	1,094	4,070	17,318
Freight	4,992	11	498
Sample expenses	4,724	-	5,067
Material expenses	-	648	10,824
Other operating expenses (not exceeded 5% of the total balance of this accounting item)	<u>14,968</u>	<u>8,259</u>	<u>30,062</u>
	<b><u>\$ 92,852</u></b>	<b><u>55,770</u></b>	<b><u>183,430</u></b>



# **CASwell, Inc.**

## **Consolidated Financial Statements and Independent Auditors' Report 2020 and 2019**

**Company Address: F8, No. 242, Bo'ai Street, Shulin District, New Taipei City  
Tel: 02-77058888**

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## **Statement of Declaration**

The entities that are required to be included in the combined financial statements of the Company for 2020 (from January 1 to December 31, 2020) under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements of the parent company and subsidiaries prepared in conformity with International Financial Reporting Standards No. 27 by the Financial Supervisory Commission, "Consolidated Financial Statements" . In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, the Company and its subsidiaries do not prepare a separate set of combined financial statements.

Sincerely,

Company Name: CASwell, Inc.

Chairman: Steve Chu

Date: March 25, 2021

## **Independent Auditors' Report**

To CASwell, Inc.:

### **Audit Opinions**

We have audited the accompanying consolidated balance sheets of CASwell, Inc. and subsidiaries (the "Group") as at December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows from January 1 to December 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinions, the consolidated financial statements mentioned above have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, as well as the International Financial Reporting Standards (IFRSs), International Accounting Standards (IAS), their interpretations and announcements recognized and announced by the Financial Supervisory Commission in all material aspects, and are considered to have reasonably expressed the consolidated financial conditions of CASwell, Inc. as of December 31, 2020 and 2019, as well as the consolidated financial performance and consolidated cash flows from January 1 to December 31, 2020 and 2019.

### **Basis for Audit Opinions**

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards. 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 CASwell, Inc. in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China ("the Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidences we have obtained is sufficient and appropriate to provide a basis for our opinions.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of CASwell, Inc. for 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters. Key audit matters for the consolidated financial statements of the current period are stated as follows:

#### **1. Inventory valuation**

Please refer to Note IV (VIII) to the consolidated financial statements for the accounting policy regarding the inventory valuation. Please refer to Note V (I) to the consolidated financial statements for the uncertainties of accounting estimates and assumptions regarding the allowance for price decline in inventories. Please refer to Note VI (III) to the Consolidated Financial Statements for an explanation of the inventories.

Notes on key audit matters:

The inventory amount of CASwell, Inc. has been presented in the financial statements as cost and net realizable value whichever was lower. With the rapid changes of sciences and technologies, new product launch might cause changes in consumer demands and significant fluctuations in sales of related products, so the inventory cost might exceed the realizable value. Losses of obsolete and slow-moving inventories shall be separately evaluated dependent upon inventory classification and how many days the inventories have become obsolete. The

presentation of such inventories involves subjective judgment, so inventory valuation was one of our important audit matters particularly audited for the financial statements of CASwell, Inc.

Audit processes:

The main audit processes we adopted for the above key audit matters included performing inventory valuation to evaluate if CASwell, Inc. had presented its inventories based on the predetermined policies for presenting write-downs of inventories; auditing basis of selling prices and net realisable value adopted by the management, in order to verify appropriateness of the estimated writedowns of inventories and expediency of the net realisable value; implementing the sampling procedure to verify rationality of inventory age; and analyzing the ratio of the current inventory writedowns to the balance of normal inventories, in order to evaluate if the writedowns of general inventories are appropriate.

## 2. Recognition and Cutoff of Revenues

For detailed accounting policies for revenue recognition, refer to Note IV (XIV); for details of revenues, refer to Annex VI (XVII).

Notes on key audit matters:

The revenues of CASwell, Inc. are mainly from R&D, production and sales of equipment related to safe network communication platforms. The revenues are what investors are concerned about, so their recognition and cutoff have been listed as one of important matters to be evaluated in auditing financial statements of CASwell, Inc.

Audit processes:

Our main audit processes for the aforementioned key audit matters include testing internal control systems related to revenues; reviewing new material contracts and understanding impacts of contractual articles upon revenue recognition; additionally sampling sales transactions concluded before and after the date of the balance sheets, and evaluating if revenues were accounted at the right time.

## 3. Assessment of Impairment of Goodwill

Refer to Note IV (XII) to the consolidated financial statements for detailed accounting policies regarding assessment of impairment of goodwill; Note V (II) for uncertainty of accounting estimates and assumptions regarding goodwill; and Note VI (IV) for details on goodwill related disclosure.

Notes on key audit matters:

The consolidated goodwill of CASwell, Inc. generated by M&A is material. According to the International Financial Reporting Standards, the management must perform annual impairment test, because this process involves hypotheses about future potential operating cash flow and weighted average cost of capital considered in estimating the value in use. As an evaluation of the results of the impairment test, the above process, which is complicated, covers many hypotheses and estimates. Hence, goodwill impairment assessment has been one of our important evaluations in auditing the financial statements of CASwell, Inc.

Audit processes:

Our main audit processes for the above key audit matters include evaluating forecast future cash flow and discount rate in hypotheses adopted by impairment models, comparing historical performances with the forecast of future cash flow, and making comparisons between the discount rate and related external data, in order to test goodwill impairment.

## **Other Matters**

We have also audited the financial statements of CASwell, Inc. for 2020 and 2019. We have issued unqualified opinions in the auditors' report for reference.

### **Responsibilities of management and governing bodies for the consolidated financial statements**

To ensure that the consolidated financial statements do not contain material misstatements caused by fraud or errors, the management is responsible for preparing fair consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, as well as the IFRS, IAS, their interpretations and announcements recognized and announced by the Financial Supervisory Commission, and for maintaining necessary internal control procedures pertaining to the consolidated financial statements.

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.

The governing bodies, including the audit committee, are responsible for overseeing the Group's financial reporting process.

### **Auditor's 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 auditor's report. 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 in the consolidated financial statements when it exists. Misstatements might arise from fraud or error. The misstatements may be considered material if they are individually or in the aggregate could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 evaluate the risk of material misstatements due to fraud or error in the financial statements; design and carry out appropriate countermeasures for the evaluated risk; and obtain sufficient and appropriate evidence as the basis for audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than 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 controls 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 internal controls of CASwell, Inc.
3. Assess the appropriateness of the accounting policies adopted by the management, as well as the reasonableness of their accounting estimates and relevant disclosures.
4. Conclude on the appropriateness of the 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 ability of CASwell, Inc. to operate as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or

conditions may cause CASwell, Inc. to cease to continue as a going concern.

5. Evaluate the overall expression, structure and contents of the financial statements (including relevant notes), and whether the financial statements fairly present relevant transactions and events.
6. Obtain sufficient appropriate audit evidences regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit and for expressing an opinion on the financial statements of the Group.

We communicate with those governing bodies 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 governing bodies 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 governing bodies, we determine the key audit matters of the financial statements of CASwell, Inc. for 2020. We describe these matters in our auditor's 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.

KPMG

CPA:

Securities Competent : Tai-Cai-Zheng-6 No.

Authority Approval No. 0930106739

Jin-Guang-zheng-Shen

No.1040003949

March 25, 2021

*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.*

**CASwell, Inc.**

**Consolidated Balance Sheets**  
**As of December 31, 2020 and 2019**  
**Unit: NTD Thousand**

		<b>2020.12.31</b>		<b>2019.12.31</b>				<b>2020.12.31</b>		<b>2019.12.31</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>			<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Assets</b>											
<b>Current assets:</b>											
1100	Cash and cash equivalents (Note VI (I))	\$ 750,334	16	694,059	16	2100	Short-term borrowings (Note VI (VIII))	\$ 15,000	-	153,264	4
1110	Financial assets at fair value through profit or loss - current (Note VI (X))	373	-	-	-	2170	Notes and accounts payable	806,626	17	844,123	20
1170	Net amount of notes receivables and accounts receivables - net (Note VI (II) (XVII))	989,287	20	1,029,944	25	2180	Accounts payable - related parties (Note VII)	154,972	3	72,343	2
1180	Net amount of trade receivables from related parties (Notes VI (II) (XVII) and VII)	67,374	1	38,585	1	2200	Other payables (including related parties) (Note VII)	183,243	4	148,433	4
1200	Other receivables	84,900	2	69,914	2	2230	Current tax liabilities	72,802	2	36,598	1
130X	Inventories (Note VI (III))	2,338,486	48	1,730,644	41	2252	Short-term provisions for warranty	8,000	-	12,070	-
1470	Other current assets (Note VIII)	71,704	1	82,054	2	2280	Lease liabilities - current (Note VI (XI))	42,147	1	41,893	1
	Total current assets	<u>4,302,458</u>	<u>88</u>	<u>3,645,200</u>	<u>87</u>	2300	Other current liabilities	61,204	1	51,130	1
						2320	Long-term liabilities due within one year or one operating period (Note VI (IX))	1,367	-	1,427	-
<b>Non-current assets:</b>											
1510	Financial assets at fair value through profit or loss - non-current	14,400	-	-	-		Total current liabilities	<u>1,345,361</u>	<u>28</u>	<u>1,361,281</u>	<u>33</u>
1517	Financial assets at fair value through other comprehensive income - non-current	8,011	-	10	-		<b>Non-current liabilities:</b>				
1600	Property, plant, and equipment (Notes VI (V) and VIII)	86,358	2	84,960	2	2530	<b>Bonds payable (Note VI (X))</b>	175,040	4	-	-
1755	Right-of-use assets (Note VI (VI))	90,513	2	66,778	2	2540	Long-term borrowings (Note VI (IX))	25,206	-	26,388	1
1780	Intangible assets (Note VI (IV) (VII))	356,718	8	363,574	9	2552	Long-term provisions for warranty	11,911	-	7,566	-
1840	Deferred tax assets (Note VI (XIII))	-	-	489	-	2570	Deferred tax liabilities (Note VI (XIII))	12,239	-	-	-
1900	Other non-current assets	6,945	-	9,277	-	2580	Lease liabilities - non-current (Note VI (XI))	48,811	1	25,626	-
	Total non-current assets	<u>562,945</u>	<u>12</u>	<u>525,088</u>	<u>13</u>	2670	Other non-current liabilities - others	74	-	34	-
							Total non-current liabilities	<u>273,281</u>	<u>5</u>	<u>59,614</u>	<u>1</u>
							<b>Total liabilities</b>	<u>1,618,642</u>	<u>33</u>	<u>1,420,895</u>	<u>34</u>
							<b>Equity attributable to owners of the parent company (Note VI (XIV)):</b>				
						3100	Share capital	730,678	15	680,357	16
						3200	Capital surplus (Note VI (X))	1,412,389	29	934,426	23
						3300	Retained earnings:				
						3310	Legal reserve	265,232	5	236,334	6
						3320	Special reserve	32,749	1	13,066	-
						3350	Unappropriated earnings (Note VI (IV))	684,323	14	711,812	17
							Total retained earnings	<u>982,304</u>	<u>20</u>	<u>961,212</u>	<u>23</u>
						3400	Other equity	(30,068)	(1)	(32,749)	(1)
						3500	Treasury shares (Note VI (XIV) (XV))	(17,856)	-	(17,856)	-
							Subtotal equity attributable to owners of the parent company	<u>3,077,447</u>	<u>63</u>	<u>2,525,390</u>	<u>61</u>
						36XX	Non-controlling interests (Note VI (IV))	169,314	4	224,003	5
							<b>Total equity</b>	<u>3,246,761</u>	<u>67</u>	<u>2,749,393</u>	<u>66</u>
							<b>Total liabilities and equity</b>	<u>\$ 4,865,403</u>	<u>100</u>	<u>\$ 4,170,288</u>	<u>100</u>

(Please read the notes to the financial statements attached here below carefully)

Chairman: Steve Chu

Manager: Reaforl Hung

Accounting Supervisor: Helen Chang



CASwell, Inc.

Consolidated Statements of Comprehensive Income  
From January 1 to December 31, 2020 and 2019  
Unit: NTD Thousand

		2020		2019	
		Amount	%	Amount	%
4000	<b>Operating revenue (Notes VI (XVII) and VII)</b>	\$ 5,465,855	100	4,431,795	100
5000	<b>Operating costs (Notes VI (III) (XI) (XII) (XV) (XVIII), VII and XII)</b>	4,317,359	79	3,517,394	79
	<b>Gross profit</b>	1,148,496	21	914,401	21
	<b>Operating expenses (Notes VI (XI) (XII) (XV) (XVIII), VII and XII):</b>				
6100	Selling and marketing expenses	153,256	3	136,984	3
6200	General and administrative expenses	211,467	4	160,104	4
6300	Research and development expenses	235,509	4	190,873	4
6450	Expected credit loss (gains) (Note VI (II))	126	-	(1,743)	-
	<b>Total operating expenses</b>	600,358	11	486,218	11
	<b>Operating Profit</b>	548,138	10	428,183	10
	<b>Non-operating income and expenses (Note VI (XIX):</b>				
7100	<b>Interest income</b>	2,770	-	4,105	-
7010	Other income	14,785	-	10,604	-
7020	Other gains and losses	(5,100)	-	(15,242)	-
7050	Financial Costs (Note VI (X) (XI))	(9,211)	-	(3,288)	-
	<b>Total non-operating income and expenses</b>	3,244	-	(3,821)	-
7900	<b>Net pretax profit of current period</b>	551,382	10	424,362	10
7950	<b>Less: Income tax expense (Note VI (XIII))</b>	134,545	2	96,962	3
	<b>Net profit of current period</b>	416,837	8	327,400	7
8300	<b>Other comprehensive income/(loss)</b>				
8310	<b>Items of other comprehensive income that will not be reclassified to profit or loss</b>				
8316	Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	-	-	(10,450)	-
8349	Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	-
	<b>Items of other comprehensive income that will not be reclassified to profit or loss</b>	-	-	(10,450)	-
8360	<b>Total items that may be reclassified subsequently to profit or loss</b>				
8361	Exchange differences on translating the financial statements of foreign operations	3,953	-	(10,919)	-
8399	Income tax relating to items that may be reclassified subsequently to profit or loss	-	-	-	-
	<b>Total items that may be reclassified subsequently to profit or loss</b>	3,953	-	(10,919)	-
8300	<b>Other comprehensive income/(loss) of current period</b>	3,953	-	(21,369)	-
8500	<b>Total comprehensive income/(loss) of current period</b>	<b>\$ 420,790</b>	<b>8</b>	<b>306,031</b>	<b>7</b>
	<b>Net profit/(loss) of current period attributable to:</b>				
8610	Owners of the parent company	\$ 372,353	7	288,980	6
8620	Non-controlling interests	44,484	1	38,420	1
	<b>Net profit of current period</b>	<b>\$ 416,837</b>	<b>8</b>	<b>327,400</b>	<b>7</b>
	<b>Total comprehensive income/(loss) attributable to:</b>				
8710	Owners of the parent company	\$ 375,034	7	269,298	6
8720	Non-controlling interests	45,756	1	36,733	1
	<b>Total comprehensive income/(loss) of current period</b>	<b>\$ 420,790</b>	<b>8</b>	<b>306,031</b>	<b>7</b>
	<b>Earnings per Share (Note VI (XVI))</b>				
9750	<b>Basic earnings per share (NTD)</b>	<b>\$ 5.29</b>		<b>4.28</b>	
9850	<b>Diluted earnings per share (NTD)</b>	<b>\$ 5.18</b>		<b>4.28</b>	

(Please read the notes to the financial statements attached here below carefully)

Chairman: Steve Chu

Manager: Reaforl Hung

Accounting Supervisor: Helen Chang

CASwell, Inc.

Consolidated Statements of Changes in Equity  
From January 1 to December 31, 2020 and 2019  
Unit: NTD Thousand

	Equity attributable to owners of parent company										
	Retained earnings					Other equity			Total Equity Attributable to Owners of the Parent Company	Non-controlling interests	Total Equity
Share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translating the financial statements of foreign operations	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	Treasury shares				
<b>Balance as of January 1, 2019</b>	\$ 680,357	930,408	200,720	11,720	695,806	(13,067)	-	(51,269)	2,454,675	31,360	2,486,035
Net profit of current period	-	-	-	-	288,980	-	-	-	288,980	38,420	327,400
Other comprehensive income/(loss) of current period	-	-	-	-	-	(9,232)	(10,450)	-	(19,682)	(1,687)	(21,369)
Total comprehensive income/(loss) of current period	-	-	-	-	288,980	(9,232)	(10,450)	-	269,298	36,733	306,031
Appropriation of earnings:											
Recognized legal reserve	-	-	35,614	-	(35,614)	-	-	-	-	-	-
Recognized special reserve	-	-	-	1,346	(1,346)	-	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(236,014)	-	-	-	(236,014)	-	(236,014)
Arising from consolidation	-	-	-	-	-	-	-	-	-	155,910	155,910
Treasury shares transferred to employees	-	4,018	-	-	-	-	-	33,413	37,431	-	37,431
<b>Balance as of December 31, 2019</b>	680,357	934,426	236,334	13,066	711,812	(22,299)	(10,450)	(17,856)	2,525,390	224,003	2,749,393
Net profit of current period	-	-	-	-	372,353	-	-	-	372,353	44,484	416,837
Other comprehensive income/(loss) of current period	-	-	-	-	-	2,681	-	-	2,681	1,272	3,953
Total comprehensive income/(loss) of current period	-	-	-	-	372,353	2,681	-	-	375,034	45,756	420,790
Appropriation of earnings:											
Recognized legal reserve	-	-	28,898	-	(28,898)	-	-	-	-	-	-
Recognized special reserve	-	-	-	19,683	(19,683)	-	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(203,477)	-	-	-	(203,477)	-	(203,477)
Equity recognized due to issuance of convertible bonds-	-	18,830	-	-	-	-	-	-	18,830	-	18,830
Corporate bond conversion into ordinary shares	50,321	459,133	-	-	-	-	-	-	509,454	-	509,454
Changes in percentage of ownership interests in subsidiaries	-	-	-	-	(147,784)	-	-	-	(147,784)	-	(147,784)
Decrease in non-controlling interest	-	-	-	-	-	-	-	-	-	(100,445)	(100,445)
<b>Balance as of December 31, 2020</b>	\$ 730,678	1,412,389	265,232	32,749	684,323	(19,618)	(10,450)	(17,856)	3,077,447	169,314	3,246,761

(Please read the notes to the financial statements attached here below carefully)

Chairman: Steve Chu

Manager: Reaforl Hung

Accounting Supervisor: Helen Chang

**CASwell, Inc.**  
**Consolidated Statements of Cash Flows**  
**From January 1 to December 31, 2020 and 2019**  
**Unit: NTD Thousand**

	2020	2019
<b>Cash flows from operating activities:</b>		
<b>Net pretax profit of current period</b>	\$ 551,382	424,362
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss)</b>		
Depreciation expenses	74,455	66,028
Amortization expenses	8,735	6,061
Expected credit losses (or reversal)	126	(1,743)
Net gain on financial assets at fair value through profit or loss	(2,214)	-
Interest expense	9,211	3,288
Interest income	(2,770)	(4,105)
Compensation cost relating to share-based payment	-	4,119
Loss on disposal and scrapping of property, plant and equipment	2	-
Total adjustments to reconcile profit (loss)	<u>87,545</u>	<u>73,648</u>
Changes in operating assets and liabilities:		
Net changes in operating assets and liabilities:		
Decrease in notes and accounts receivable (including related parties)	11,708	195,438
(Increase) decrease in other receivables (including related parties)	(15,157)	27,510
Increase in inventories	(607,842)	(41,547)
Decrease (increase) in other current assets	10,350	(544)
Total net changes in operating assets	<u>(600,941)</u>	<u>180,857</u>
Net changes in operating liabilities:		
Increase (decrease) in trade and notes payables (including related parties)	45,132	(303,554)
Increase (decrease) in other payables (including related parties)	34,875	(19,587)
Increase in provisions	275	489
Increase (decrease) in other current liabilities	10,074	(19,245)
Total net changes in operating liabilities	<u>90,356</u>	<u>(341,897)</u>
Total net changes in operating assets and liabilities	<u>(510,585)</u>	<u>(161,040)</u>
Total adjustments to reconcile profit (loss)	<u>(423,040)</u>	<u>(87,392)</u>
<b>Cash inflow generated from operations</b>	128,342	336,970
Interest received	2,941	4,000
Interest paid	(3,811)	(1,628)
Income tax paid	<u>(85,613)</u>	<u>(118,611)</u>
<b>Net cash inflow generated from operations</b>	<u>41,859</u>	<u>220,731</u>
<b>Cash flows from investing activities:</b>		
Purchase of financial assets at fair value through other comprehensive income	(8,000)	-
Purchase of financial assets at fair value through profit or loss	(14,400)	-
Acquisition of subsidiaries (deducting cash obtained)	(197,041)	(382,440)
Acquisition of property, plant and equipment	(20,632)	(4,452)
Disposal of property, plant and equipment	1	-
Acquisition of intangible assets	(746)	(2,080)
Decrease (increase) in other non-current assets	<u>1,818</u>	<u>(8,436)</u>
Net cash outflow of investing activities	<u>(239,000)</u>	<u>(397,408)</u>
<b>Cash flows from financing activities:</b>		
(Decrease) increase in short-term borrowings	(138,264)	123,726
Proceeds from issuance of convertible bonds	699,700	-
Proceeds from long-term borrowings	-	11
Repayments of long-term borrowings	(1,242)	(716)
Principal repayments for lease liabilities	(54,925)	(48,437)
Increase in other non-current liabilities	40	16
Cash dividends paid	(203,477)	(236,014)
Costs of issuing stocks	-	(101)
Transfer costs of treasury shares	-	33,413
Changes in non-controlling interests	<u>(51,188)</u>	<u>-</u>
<b>Net cash inflow (outflow) into and out of financing activities</b>	<u>250,644</u>	<u>(128,102)</u>
Effects of exchange rate changes on the balance of cash held in foreign currencies	<u>2,772</u>	<u>(10,571)</u>
Increase (decrease) in cash and cash equivalents of current period	56,275	(315,350)
Balance of cash and cash equivalents in the consolidated statements of cash flows at beginning of year	<u>694,059</u>	<u>1,009,409</u>
Balance of cash and cash equivalents in the consolidated statements of cash flows	<u>\$ 750,334</u>	<u>694,059</u>

(Please read the notes to the financial statements attached here below carefully)

Chairman: Steve Chu

Manager: Reaforl Hung

Accounting Supervisor: Helen Chang

## CASwell, Inc. and its subsidiaries

### Notes to Consolidated Financial Statements 2020 and 2019

(Unless otherwise specified, all amounts shall be denominated in NTD thousand)

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#### 1. Company History

CASwell, Inc. (hereinafter referred to as "the Company") was established on April 19, 2007, with its registered office in F8, 242 Bo'ai Street, Shu-Lin District, New Taipei City. The main businesses of the Company and its subsidiaries (hereinafter referred to as "the Consolidated Company") include manufacturing of electronic components, manufacturing of computers and their peripherals, wholesale of electronic materials and information services. The Company was listed on April 16, 2018.

#### 2. Date and Procedures of Authorization of Financial Statements

The consolidated financial statements were published upon approval by the Board of Directors on March 25, 2021.

#### 3. Application of New and Amended Standards and Interpretations

- a. Impact of adopting newly issued or amended standards and interpretations endorsed by the Financial Supervisory Commission

The Consolidated Company has adopted the following revised IFRS since January 1, 2020, without any material impact on the Consolidated Financial Statements.

- b. Effect of new issuance of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Consolidated Company

The Company has evaluated that the adoption of the following revised IFRSs, effective from January 1, 2021, without any material impact on the Consolidated Financial Statements.

- c. Effect of IFRSs issued by IASB but not yet endorsed by the FSC

Impact of IFRSs Issued by IASB but not yet endorsed by the FSC on the Consolidated Company:

<b>New or Revised Standards</b>	<b>Main Revisions</b>	<b>Effective Date of Issuance by the IASB</b>
Amendments to IAS1 "Classify Liabilities as Current or Non-current"	<p>The amendments are to promote consistency in applying the standards by helping companies determine whether debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current in the balance sheet.</p> <p>The amendments also clarify the classification rules for debts companies might settle by converting them into equity.</p>	2023.1.1

The Consolidated Company is continuously assessing the effects of the foregoing standards and interpretations on its financial conditions and business performance. Related impacts will be disclosed upon completion of the assessment.

The Consolidated Company anticipates that the application of other unrecognized newly

published and amended IFRSs will not have any material impact on the consolidated financial statements.

#### **4. Summary of Significant Accounting Policies**

The significant accounting policies adopted for the consolidated financial statements are as follows. Except for Note 3, following accounting policies have been consistently applied to all the periods presented in the consolidated financial statements.

##### **a. Compliance Declaration**

The consolidated financial statements are prepared in accordance with the "Regulations Governing the Preparation of Financial Statements by Securities Issuers" (hereinafter referred to as "Preparation Regulations"), as well as the International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), and Interpretations developed by the International Financial Reporting Interpretation Committee (IFRIC) or the former Standing Interpretations Committee (SIC) as endorsed and issued to take effect by the Financial Supervisory Commission (FSC) (hereinafter referred to as "IFRS as endorsed by the FSC").

##### **b. Preparation Basis**

###### **1) Basis of Measurement**

Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- a) Financial assets at fair value through profit or loss are measured at fair value through profit or loss.
- b) Other comprehensive income/(loss) at fair value is accounted as financial assets measured at fair value;

###### **2) Functional Currency and Currency Denomination**

Every individual entity of the Consolidated Company takes the currency of the economic environment where its business premises are in as the functional currency. The consolidated financial statements are presented in the New Taiwan dollar, the Company's functional currency. All financial information presented in New Taiwan dollar is in NTD thousand.

##### **c. Basis of Consolidation**

###### **1) Principles for Preparing the Consolidated Financial Statements**

The consolidated financial statements are mainly specific to the Company and other entities under the control of the Company (i.e. subsidiaries of the Company).

The Company includes the financial statements of a subsidiary in the consolidated financial statements from the date of gaining control over the subsidiary until the date of loss of control. The transactions, balances and any unrealized income, expenses and losses within the Consolidated Company have all been eliminated at the time of preparation of the consolidated financial statements. A subsidiary's total comprehensive income is attributed to the owners of the Company and non-controlling interests, even if non-controlling interests become having deficit balances in the process.

The financial statements of the subsidiaries have been adjusted to bring their accounting policies in line with those used by the Consolidated Company.

When a change in the Consolidated Company's ownership interests in a subsidiary does not cause the Company's loss of control over the subsidiary, it shall be treated

as an equity transaction between owners. The difference between the adjusted amount of non-controlling interests and the fair value of consideration paid or collected shall be directly recognized in equity attributable to the owners of the Company.

2) Subsidiaries included in the consolidated financial statements:

<u>Name of Investor</u>	<u>Name of Subsidiary</u>	<u>Business Nature</u>	<u>% of Ownership</u>		<u>Description</u>
			<u>2020.12.31</u>	<u>2019.12.31</u>	
The Company	CASO, INC. ("CASO")	Network machines, computer peripherals and other imports and sales	99%	99%	-
The Company	CASWELL INTERNATIONAL INVESTMENT CO., LTD. ("CASWELL INTERNATIONAL")	Overseas Investment	100%	100%	-
The Company	CASWELL AMERICAS, INC. ("CAI")	Sales of netcom products	100%	100%	-
CASWELL INTERNATIONAL	Beijing Caswell Ltd. ("Beijing Caswell")	Production and sales of network communication products	82%	82%	-
The Company	APLIGO GmbH ("APLIGO")	Hub and SI Service	66.67%	52%	Note:
The Company	HAWKEYE TECH, CO., LTD	Design and manufacturing of telecommunication, network and computing equipment	60.64%	40%	Note 1

Note: On April 1, 2019, the Company obtained 52% equity of APLIGO by acquisition, and included the equity in the consolidated financial statements. On August 25, 2020, APLIGO issued ordinary shares for cash among to NT\$27,888 thousand, all of which were subscribed by the Company, and upon such subscription, the Company held 66.67% equity of APLIGO in total.

Note 1: On July 1, 2019, the Company gained 40% equity of HAWKEYE TECH, CO., LTD by acquisition, and included such equity in the consolidated financial statements. On June 30, 2020, the Board of Directors of the Company passed a resolution to further acquire 20.64% equity from HAWKEYE TECH, CO., LTD in cash amounting to NT\$197,041 thousand on July 15, 2020, and upon such acquisition, the Company held 60.64% equity of HAWKEYE TECH, CO., LTD in total.

3) Subsidiaries not included in the consolidated financial statements: None.

d. Foreign Currencies

1) Foreign Currency Transactions

For foreign currency transactions, the currencies are translated into the functional currency at the exchange rates prevailing on the dates of the transactions. Foreign currency monetary items are translated into functional currency on the end date of each subsequent reporting period (hereinafter referred to as the reporting date) at the exchange rate on that day.

Foreign currency items measured at fair value are re-translated into functional currency according to the exchange rate on the date of fair value, and foreign currency non-currency items measured through historical cost will be translated at the exchange rate on the date of transaction.

Exchange differences resulting from translating the foreign currency are generally recognized as profit and loss, but the following items are recognized as other comprehensive income:

- a) Equity instruments designated to be measured at fair value through other comprehensive income;
- b) Financial liabilities designated as net investment hedging for foreign operations within the effective hedging range; or
- c) Qualified cash flow hedge within the effective hedging range.

## 2) Foreign Operations

The assets and liabilities of a foreign operation, including the goodwill and fair value adjustment, are translated into NTD at the exchange rate on the reporting date; the revenue and expense items are translated into NTD at the average exchange rate of the period. The exchange difference amount will be recognized as other comprehensive income.

Where disposal by the Consolidated Company of a foreign operation causes loss of control or joint control or material impacts, all accumulated exchange differences related to the foreign operation shall be reclassified as profit or loss. In the case of partial disposal of a subsidiary with a foreign operation, the accumulated exchange difference shall be reclassified as non-controlling interest in proportion. In the case of partial disposal of investments in an affiliated enterprise or joint venture with a foreign operation, the accumulated exchange difference shall be reclassified as profit or loss in proportion.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the related gains and losses arising from the foreign currency exchange shall be regarded as part of the net investment in that foreign operation and recognized as other comprehensive income.

## e. Classification Standards for Discriminating Current and Non-current Assets and Liabilities

Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- 1) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- 2) Assets held primarily for trading purposes;
- 3) Assets expected to be realized within 12 months after the reporting period; or
- 4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- 1) Liabilities that are expected to be paid off within the normal operating cycle;
- 2) Liabilities held primarily for trading purposes;

- 3) Liabilities that are to be paid off within twelve months after the reporting period; or
- 4) Liabilities with a repayment schedule that cannot be unconditionally deferred till at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. The Company shall classify all other liabilities as non-current.

f. Cash and Cash Equivalents

Cash includes cash on hand and current deposit. Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the foregoing definition and are held for short-term cash commitments other than investment or other purposes are presented as cash on hand.

g. Financial Instruments

The accounts receivable and debt securities issued were originally recognized when they were generated. All other financial assets and liabilities will be recognized in the consolidated balance sheets when the Consolidated Company becomes a party to the contract of the financial instrument. Financial assets that are not measured at fair value through profit or loss (other than accounts receivable that do not contain a significant financing component) or financial liabilities are originally measured at fair value plus the transaction costs directly attributable to the acquisition or issuance. The accounts receivable that do not contain a significant financing component are measured at transaction prices.

1) Financial assets

For the purchase or sale of financial assets that conforms to customary transactions, the Consolidated Company consistently treats all purchases and sales of financial assets classified in the same manner based on the transaction date or delivery date.

When originally recognized, the financial assets shall be classified as follows: Financial assets at amortized cost, investments in equity instruments measured at FVTOCI and financial assets at fair value through profit or loss. The Consolidated Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets from the next reporting period.

a) Financial assets at amortized cost

A financial asset shall be measured at amortized cost if it meets both of the following conditions and is not designated as measured at fair value through profit and loss:

- It is held under a business model with a view to holding assets to collect contractual cash flows.
- The cash flow generated on a specified date under the contract of the financial asset is solely for paying the outstanding principal and its interests.

A financial asset measured at amortized cost is subsequently recognized at their initial value, plus any directly attributable transaction costs using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign currency profit or loss and impairment loss are recognized as profit or loss. Any gain or loss on derecognition is recognized as profit or loss.



b) Financial assets at fair value through other comprehensive income

The Consolidated Company may, at initial recognition, make an irrevocable decision to present subsequent changes in fair value of an equity instrument not for trading upon investment as other comprehensive income/(loss) This election is made on an instrument-by-instrument basis.

An investment through equity instrument is subsequently measured at fair value. Dividend income (unless it clearly represents the recovery of part of the investment cost) is recognized as profit and loss. The remaining net profit or loss is recognized as other comprehensive income and is not reclassified to profit and loss.

Dividend income derived from equity investments is recognized on the date that the consolidated company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

c) Financial assets at fair value through profit or loss

Financial assets not measured at amortized costs or at fair value through other comprehensive income shall be measured at fair value through profit and loss, including derivative assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or measured at fair value through other comprehensive income, as at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Such assets are subsequently measured at fair value, and their net benefits or losses (including any dividend and interest income) are recognized as profit and loss.

d) Impairment of financial assets

The expected credit loss for financial assets measured through amortized cost by the Consolidated Company (including cash and cash equivalents, financial assets measured at amortized cost, notes receivable, accounts receivable, other receivables, refundable deposit, and other financial assets, etc.) is recognized as allowance loss.

The Consolidated Company measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- Debt securities that are determined to have low credit risk on the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) have not increased significantly since initial recognition.

Loss allowances are recognized against accounts receivable and measured based on the expected credit loss during the existence.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Consolidated Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the consolidated company's historical experience and informed credit assessment as well as forward-looking information.

Time deposits held by the Consolidated Company are traded with and performed by financial institutions of investment grade or above, and therefore are deemed to have low credit risk.

The Consolidated Company assumes that the credit risk on a financial asset has increased significantly if it is overdue for more than 120 days.

If the contract payment is more than 180 days overdue or the borrower is unlikely to fulfill its credit obligation to pay the Consolidated Company in full, the Consolidated Company will consider that default occurs on the financial asset.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The 12-month expected credit losses represent the expected credit losses arising from the possible default of the financial instrument within the 12 months after the reporting date (or a short period if the expected life of the financial instrument is shorter than 12 months)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Consolidated Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. The difference between the cash flows due to the Consolidated Company in accordance with the contract and the cash flows that the Consolidated Company expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

The consolidated company evaluates whether there is credit impairment in measuring financial assets through amortized cost on every reporting date. When there is one or more events arising that will bring unfavorable influence to expected future cash flow, there will be already credit impairment to the financial asset. Evidence of a credit impairment of a financial asset includes the observable information for the following events:

- Major financial difficulties of the borrower or issuer;
- Default, such as delay or overdue for more than 180 days;
- The Company makes concessions for the borrower that would not have been considered for economic or contractual reasons related to the borrower's financial difficulties;
- The borrower is most likely to file for bankruptcy or conduct other financial restructuring; or
- The active market for the financial asset disappears due to financial difficulties.

The allowance loss of financial assets measured through amortized cost is deducted from the carrying amount of assets.

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. For companies, the Consolidated Company analyzes the timing and amount of write-offs individually based on whether it is reasonably expected to be recoverable. The Consolidated Company expects that the amount written off will not be materially reversed. However, financial assets that are written off could still be

subject to enforcement activities in order to comply with the Consolidated Company's procedures for recovery of amounts due.

e) Derecognition of financial assets

The Consolidated Company will only derecognize the financial assets when the contractual rights to the cash flow from the assets expire or when the Company transfers all the risks and rewards of ownership of the financial assets to other enterprises substantially without maintaining control over the financial assets.

When the Consolidated Company concludes a transaction to transfer financial assets, if it retains all or almost all risks and rewards of ownership of the transferred assets, the transferred assets will still be recognized on the balance sheet.

2) Financial Liabilities and Equity Instruments

a) Classification of liabilities or equities

The debt and equity instruments issued by the Consolidated Company are classified as financial liabilities or equity according to the substance of the contractual agreement and the definition of financial liabilities and equity instruments.

b) Equity transactions

Equity instruments refer to any contracts containing the Consolidated Company's residual interest after subtracting liabilities from assets. The equity instrument issued by the Consolidated Company shall be recognized by the payment net of the direct cost of issuance.

c) Treasury shares

In the repurchase of the equity instruments recognized by the Company, the consideration paid, including directly attributable costs, is recognized as a reduction in equity. The repurchased shares are classified as treasury shares. For any subsequent sale or re-issue of treasury shares, the amount received is recognized as a reduction in equity, and the surplus or loss arising from the transaction is recognized as capital surplus or retained earnings (where capital surplus are insufficient to offset).

d) Compound financial instruments

The compound financial instruments issued by the Consolidated Company refer to corporate bonds (denominated in NTD) for which holders enjoy the option to convert them into capital, and the number of issued shares will not change with variation of fair value.

For the components of compound financial instruments liability, the originally recognized amount is measured at fair value through similar liability of equity conversion option. For the components of equity, the initial recognized amount is measured by the difference between fair value of overall compound financial instruments and fair value of components of liability. Any directly attributable transaction cost will be amortized to liability and equity components according to the carrying amount ratio of original liability and equity.

After initial recognition, the liability components of compound financial instruments are measured through amortized cost with effective interest rate method. The components of compound financial instruments will not be re-measured after initial recognition.

Interest related to financial liabilities is recognized as profit or loss. Financial liability is reclassified as equity upon conversion without being recognized as profit or loss.

e) Financial liabilities

Financial liabilities are classified as those at amortized costs or measured at fair value through profit or loss. Financial liabilities are classified as measured at fair value through profit or loss if they are held for trading, derivatives, or designated at initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value; related net profits and losses, including any interest expenses, are recognized as profit or loss.

Other financial liabilities shall subsequently measured at amortized cost using the effective interest method. Interest income and foreign currency profit or loss are recognized as profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

f) Derecognition of financial liabilities

The Consolidated Company derecognizes a financial liability when its contractual obligation has been discharged or canceled, or has expired. When the terms of financial liabilities are modified and the cash flow of the modified liabilities is significantly different, the original financial liabilities shall be excluded and the new financial liabilities shall be recognized at fair value based on the revised terms.

When financial liabilities are derecognized, the difference between their carrying amount and the total consideration payable (including any transferred non-cash assets or liabilities assumed) shall be recognized as profit or loss.

g) Offset of financial assets and liabilities

The Consolidated Company presents financial assets and liabilities on a net basis when the Consolidated Company has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

h. Inventories

Inventories are measured at the lower of cost or net realizable value. Inventories are generally valued at standard costs, compared with the actual costs in the financial reporting period, and adjusted when necessary, in order that they will be close to the costs calculated using the weighted average method. The net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to complete the sales.

i. Property, Plant and Equipment

1) Recognition and measurement

Property, plant and equipment shall be measured by subcontracting accumulated depreciation and any accumulated impairment cost from their costs (including capitalized borrowing costs).

The material components of property, plant and equipment with different service lives are treated as separate items (major components) of property, plant and equipment.

The gain or loss arising from the disposal of property, plant and equipment shall be recognized as non-operating income and expenses.

2) Subsequent cost

Subsequent cost will be only capitalized when the future economic benefits are likely to flow into the Consolidated Company.

3) Depreciation

Depreciation is calculated based on the cost of assets minus the residual value, and recognized as profit or loss within the estimated useful life of each component using the straight-line method.

The estimated useful lives of significant items of property, plant and equipment in the current and comparative years are as follows:

- a) Houses and buildings: 32 years
- b) Machinery and equipment: 3-10 years
- c) R&D equipment: 2-10 years
- d) Other equipment: 2-8 years

Depreciation methods, useful lives, and residual values of the Consolidated Company are reviewed on each reporting date and adjusted when necessary.

j. Leases

1) Lease judgment

The Consolidated Company evaluates whether the contract is a lease or contains a lease upon the conclusion of the contract. If the contract transfers control over the use of the identified assets for a period of time in exchange for consideration, the contract shall be a lease or contain a lease. In order to evaluate whether the contract is a lease, the Consolidated Company will evaluate the following items:

- a) The contract will involve the use of an identified asset that is explicitly specified in the contract or implied by the time when it is available for use. Its entity can distinguish or represent substantially all of its production capacity. If the supplier has substantive rights to replace the asset, the asset will not be an identified asset; and
- b) The right to obtain almost all economic benefits from the use of identified assets throughout the period of use; and
- c) To obtain the right to lead the use of identified assets when one of the following conditions is met:
  - The client has the right to decide the use of the identified assets and the purpose of use throughout the period of use.
  - Relevant decisions about the way of use and purpose of the asset are made in advance, and:
    - The client has the right to operate the asset during the entire use period, and the supplier does not have the right to change the operation instructions; or
    - The way in which the client plans the asset has pre-determined the way and purpose of use for the entire period of use.

Upon the conclusion of the lease or when reassessing whether the contract includes a lease, the Consolidated Company will allocate the consideration in the contract to the individual lease components on the basis of the relative individual price. However, when leasing land and buildings, the Consolidated Company will choose not to

distinguish between non-lease components and treats the lease component and non-lease component as a single lease component.

## 2) Lessee

The Consolidated Company recognizes the right-of-use asset and lease liability upon the inception of the lease. The right-of-use asset is initially measured at cost, which includes the original measured amount of the lease liability, adjusts any lease payments paid on or before the inception of the lease and adds the original direct cost incurred and the estimated cost of dismantling, removing the underlying asset and restoring its location or underlying asset, and deducting any lease incentive.

The right-of-use assets shall subsequently be depreciated on a straight-line basis from lease commencement date to the end of the useful life or the end of the lease term whichever is earlier. In addition, the Consolidated Company regularly will assess whether the right-of-use asset is impaired and treat any impairment loss that has occurred, as well as cooperating to adjust the right-of-use asset when the lease liability is remeasured.

Lease liabilities are initially measured as the present value of the lease payments that have not been made at the inception of the lease. If the implicit interest rate of the lease is easy to determine, it shall be applied as the discount rate. If it is not easy to determine, the incremental borrowing rate of the Consolidated Company shall be adopted. Generally speaking the Consolidated Company adopts the incremental borrowing rate as the discount rate.

Lease payments in the measurement of lease liabilities include:

- a) Fixed benefits, including substantial fixed benefits;
- b) Variable lease payments dependent upon certain indicators or rates are measured by the indicators or rates used at the inception of the lease;
- c) The residual value guarantee expected to be paid; and
- d) When reasonably determined that the purchase option or lease termination option will be exercised, the exercise price or the penalty payable.

The lease liability is subsequently accrued by the effective interest method, and the amount will be measured when the following occurs:

- a) Changes in the indicator or rate used to determine lease payments result in changes in future lease payments;
- b) Changes in the residual value guarantee expected to be paid;
- c) Changes in the evaluation of the underlying asset purchase option;
- d) Changes in the estimate of whether to exercise the extension or termination option and the assessment of the lease period;
- e) Modification of lease subject, scope or other terms.

When the lease liability is remeasured due to changes in the aforementioned indicator or rate used to determine lease payments, changes in the residual value guarantee, and changes in the evaluation of purchase, extension or termination options, the carrying amount of the right-of-use asset will be adjusted accordingly. When the carrying amount of the right-of-use asset is reduced to zero, the remaining remeasured amount will be recognized as profit or loss.

For lease modifications that reduce the scope of the lease, the carrying amount of the right-of-use asset will be reduced to reflect the partial or full termination of the lease,

and the difference between the lease and the remeasured amount of the lease liability will be recognized as profit or loss.

For short-term leases of machines, equipment and other equipment as well as leases of low-value underlying assets, the Consolidated Company will choose not to recognize the right-of-use assets and lease liabilities, but to recognize the related lease benefits as expenses on the straight-line basis during the lease term.

k. Intangible Assets

1) Recognition and measurement

Goodwill arising from the acquisition of a subsidiary is measured as cost less cumulative impairment.

Other intangible assets with a limited useful life acquired by the Consolidated Company will be evaluated at costs minus accumulated amortization and accumulated impairment.

2) Amortization

Except for goodwill, amortization is calculated based on the cost of assets less the estimated residual value. Since the intangible assets are ready for use, it shall be recognized as profit or loss within their estimated useful life using the straight-line method.

The estimated useful lives of significant items of property, plant and equipment in the current and comparative years are as follows:

- a) Computer software: 2-5 years
- b) Others: 5 years

The residual value, useful life, and amortization method of an intangible asset with a finite useful life shall be inspected on each reporting date and adjusted when necessary by the Consolidated Company.

l. Impairment of Non-financial Assets

The Consolidated Company assesses on each reporting date regarding whether there is any indication that the carrying amount of non-financial assets (other than inventories and deferred income tax assets) may be impaired. If any such indication exists, the recoverable amount of the asset shall be estimated. An impairment test is conducted on goodwill on a yearly basis.

For the purpose of impairment test, a group of assets with cash inflows are largely independent of the cash inflows of other individual assets or asset groups is treated as the smallest identifiable asset group. The goodwill obtained from business combinations shall be distributed among various cash-generating units or groups of cash-generating units ("cash-generating units") that the Company is expected to benefit from business combinations.

The recoverable amount is the fair value of an asset or cash-generating unit minus disposal costs and its value in use, whichever is higher. In evaluating the value in use, the estimated future cash flow shall be converted to the present value at a pre-tax discount rate, which shall reflect the current market assessment of the time value of money and the specific risks for the asset or cash-generating unit.

If the recoverable amount of an individual asset or cash-generating unit is lower than the carrying amount, an impairment loss will be recognized.

The impairment cost shall immediately be recognized as current profit or loss. It shall be

first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then the carrying amount of the asset on a pro rata basis based on the carrying amount of other assets in the cash-generating unit.

The impairment loss of goodwill shall not be reversed. The non-financial assets other than goodwill shall only be reversed within the carrying amount of the assets of which impairment loss hasn't been recognized in the prior years (minus depreciation or amortization).

m. Provision for Liabilities

The recognition of a provision for liabilities means that the Consolidated Company has a present obligation arising from a past event, and it is likely that the Consolidated Company will have to discharge resources with economic benefit in the future to fulfill the obligation, the amount of which can be reliably estimated. The provision is discounted at a pre-tax discount rate that reflects the current market's assessment of the time value of money and the specific risk of liabilities. The amortization of the discount is recognized as interest expense.

Provision for warranty liabilities is recognized at the time of selling goods or services and measured on a weighted basis according to its relative probability based on historical warranty information and all possible outcomes.

n. Revenue Recognition

1) Revenue from contracts with customers

Income is measured at the consideration to which it is expected to be entitled in transferring the goods or services. The Consolidated Company will recognize income only when the control of goods or services is transferred to customers and the performance obligations are fulfilled. The accounting policies for the Consolidated Company's main types of revenue are explained below:

a) Goods sales

The Consolidated Company manufactures network communication products and sells them to customers. The Consolidated Company will recognize revenue when control of the products has been transferred. The control of the products will be transferred when the products are delivered to the customer, who has full discretion over the channel and price to sell the products. There is no unfulfilled obligation affecting the customer's acceptance of the products. Delivery means delivering the products to designated place, whereby their obsolescence and loss risk has been transferred to a customer, who has accepted the products according to sales contract while the acceptance inspection terms become invalid, or the Consolidated Company has objective evidences to believe that all acceptance inspection conditions have been met.

The Consolidated Company undertakes the obligation of defect refund for provision of the standard warranty, and the obligation is recognized as warranty liability provision.

A receivable will be recognized when the goods are delivered as this is the point in time that the Consolidated Company has a right to an amount of consideration that is unconditional.

b) Financial components

The Consolidated Company expects that the time between the transfer of goods or services to the customer under all customer contracts and the payment for such goods or services by the customer is not longer than one year. Therefore,



the Consolidated Company does not adjust the time value of money of the transaction price.

o. Employee Benefits

1) Defined contribution plan

The contribution obligations of defined contribution plans for pensions shall be recognized as expenses during employees' rendering of services.

2) Short-term employee benefits

Obligations for short-term employee benefits are recognized as expenses for the periods during which services are rendered. A liability will be recognized for the amount expected to be paid if the Consolidated Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

p. Share-based Payment Transactions

Equity-delivered share-based payment agreement is recognized at the fair value of the grant date with a corresponding increase in equity during the vesting period of the reward. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions on the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

The date on which the share-based payment is made by the Consolidated Company is the base date for capital increase approved by the Board of Directors.

q. Income Taxes

Income taxes include current and deferred income taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized as profit or loss.

Current income taxes include the estimated income tax payable or tax refunds receivable based on tax gains (losses) for the current year and any adjustments to income taxes payable or tax refunds receivable for previous years. The amount is based on the statutory tax rate on the reporting date or the tax rate of substantive legislation to measure the best estimate of the amount expected to be paid or received.

Deferred taxes arise from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Temporary differences arising from the following circumstances are not recognized as deferred income tax:

- 1) Temporary differences arising from the initial recognition of assets or liabilities other than in the transaction of a business combination which do not affect accounting profits and tax gains (losses) at the time of the transaction;
- 2) Temporary differences arise from investments in subsidiaries, and cannot be reversed at the time points where such reversal is controllable by the Consolidated Company and would probably not be reversed in the foreseeable future; and
- 3) Taxable temporary differences arise from the original recognition of goodwill.

Deferred income tax is measured at the tax rate at the time of reversal of expected

temporary differences based on the statutory or substantive legislative tax rate on the reporting date.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met by the Consolidated Company:

- 1) The Consolidated Company has the legal right to settle tax assets and liabilities on a net basis; and
- 2) The deferred income tax assets and liabilities are related to one of taxpayers paying the income taxes levied by a tax authority;
  - a) The taxes are paid by the same taxpayer; or
  - b) The taxpayers are different, but intend to liquidate current income tax liabilities and assets (where such amounts are significant) on a net basis every year in the period of expected asset realization or debt liquidation, or realize assets and liquidate the liabilities simultaneously.

A deferred income tax asset should be recognized for the carryforward of unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the unused tax credits and deductible temporary differences can be utilized. Such unused tax credits and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax credits and deductible temporary differences can be utilized.

r. **Business Combinations**

The Consolidated Company shall deal with all business combinations using the acquisition approach. Goodwill is measured at the fair value of the transfer price on the acquisition date (including the amount attributable to any non-controlling interests of the acquiree) less the net amount of identifiable assets acquired and liabilities assumed (generally as fair value). If the difference is negative, the Consolidated Company shall reevaluate to confirm whether to recognize bargain purchase gains as profit or loss after all assets acquired and liabilities assumed have been correctly identified.

Except for those related to the issuance of debt or equity instruments, all other transaction costs associated with business combinations shall be recognized as business combination costs right after they are incurred.

If an acquiree's non-controlling interests are current ownership interests, and their owner has the right to receive net corporate assets on a pro rata basis at the time of liquidation, the Consolidated Company shall choose to measure the recognized amount of the acquiree's net identifiable assets at fair value or according to current ownership tools on the acquisition date on a transaction by transaction basis. Other non-controlling interests shall be measured at the fair value on the date of acquisition or on other basis stipulated by the international financial reporting standards recognized by the Financial Supervisory Commission.

s. **Earnings per Share**

The Consolidated Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding

after adjustment for the effects of all dilutive potential ordinary shares. The potential diluted ordinary shares of the Consolidated Company include convertible bonds and stock options for employees.

t. Information on Departments

As integral parts of the Consolidated Company, operations departments engage in business activities which might earn revenues and incur expenses. The business results of all operations departments are regularly reviewed by the Consolidated Company's main business decision makers, in order to determine resource allocation to the departments and evaluate their performances.

**5. The Primary Sources of Uncertainties in Major Accounting Judgments, Estimates, and Assumptions**

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimations and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from the estimates.

Management continually reviews estimates and underlying assumptions, and recognizes the changes in accounting estimates in the period of change and in the affected future periods.

The Consolidated Company has no accounting policies that involve material judgments or have material impact on the amounts recognized in the consolidated financial statements.

For the uncertainties in the assumptions and estimates, the information related to the material risk that will not result in a material adjustment in the next fiscal period is as follows:

a. Inventory Valuation

As inventories must be measured at the lower of cost or net realizable value, the Consolidated Company estimates the amount of normal loss, obsolescence or unmarketable items on the reporting date, and writes down the inventory cost to the net realizable value. This inventory valuation is mainly based on the product requirements within a specific future period. Hence, it may have significant changes due to rapid industrial changes.

b. Evaluation of Goodwill Impairment

The evaluation process of goodwill impairment is dependent upon the subjective judgment of the Consolidated Company, and in determining whether goodwill is impaired, it is necessary to estimate the value of the cash-generating unit to be allocated to the goodwill. To calculate the value in use, the management has to estimate the future cash flows from CGUs and assign an appropriate discount rate to calculate the present value. Significant impairment loss may occur if actual cash flows are lower than the forecasts.

## 6. Details of Significant Accounts

### a. Cash and Cash Equivalents

	<u>2020.12.31</u>	<u>2019.12.31</u>
Cash on hand and working capital	\$ 801	907
Foreign currencies and demand deposits	524,771	546,736
Time deposits	<u>224,762</u>	<u>146,416</u>
Cash and cash equivalents in the consolidated cashflow statement	<u><b>\$ 750,334</b></u>	<u><b>694,059</b></u>

Refer to Note VI (XX) for the details on interest rate risk and sensitivity analysis of the financial assets of the Consolidated Company.

### b. Notes receivable and accounts receivable (including affiliates)

	<u>2020.12.31</u>	<u>2019.12.31</u>
Notes receivable - from operations	\$ 212	2,403
Accounts receivable - measured at amortized cost	1,059,144	1,068,853
Less: loss allowance	<u>(2,695)</u>	<u>(2,727)</u>
	<u><b>\$ 1,056,661</b></u>	<u><b>1,068,529</b></u>

The Consolidated Company estimates expected credit losses using the simplified approach, that is, a loss allowance is recognized based on lifetime of expected credit losses. To measure the expected credit losses, notes and accounts receivables were grouped based on shared credit risks on representative customers' payment of all sums due according to corresponding contracts, and forward-looking information (including overall economy and related industry information) was taken into account. Analysis on expected credit losses of the Consolidated Company's notes and accounts receivable is as follows:

	<u>2020.12.31</u>		
	<b>The carrying amount of notes receivable and accounts receivable</b>	<b>Weighted average expected credit loss rate</b>	<b>Expected credit losses during allowance for loss</b>
Not overdue	\$ 969,466	0.05%	441
Overdue for no more than 30 days	43,925	0.90%	396
Overdue for 31 to 120 days	21,088	0.19%	40
Overdue for 121 to 365 days	23,374	1.35%	315
Overdue for more than 366 days	<u>1,503</u>	100.00%	<u>1,503</u>
	<u><b>\$ 1,059,356</b></u>		<u><b>2,695</b></u>
		<u>2019.12.31</u>	

	<b>The carrying amount of notes receivable and accounts receivable</b>	<b>Weighted average expected credit loss rate</b>	<b>Expected credit losses during allowance for loss</b>
Not overdue	\$ 1,003,997	0.02%	170
Overdue for no more than 30 days	35,874	0.38%	138
Overdue for 31 to 120 days	29,801	3.16%	942
Overdue for 121 to 365 days	167	35.93%	60
Overdue for more than 366 days	<u>1,417</u>	100%	<u>1,417</u>
	<b><u>\$ 1,071,256</u></b>		<b><u>2,727</u></b>

The changes in loss allowances for notes and accounts receivable of the Consolidated Company are as follows:

	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 2,727	4,034
Amount impacted by business combination	-	411
Recognized impairment loss	126	-
Reversed impairment loss	-	(1,743)
Unrecoverable write-off of current year	(192)	-
Foreign currency translation gain or loss	<u>34</u>	<u>25</u>
Ending balance	<b><u>\$ 2,695</u></b>	<b><u>2,727</u></b>

None of above financial assets are used as guarantees for loans or financing limits.

Please refer to Note VI (XX) for further information on other credit risks.

c. Inventories

	<b>2020.12.31</b>	<b>2019.12.31</b>
Raw materials and consumables	\$ 1,126,282	1,119,307
Work-in-process	231,195	187,912
Finished products	<u>981,009</u>	<u>423,425</u>
	<b><u>\$ 2,338,486</u></b>	<b><u>1,730,644</u></b>

The loss from inventory devaluation written down by the Consolidated Company to net realizable value for inventories and gains from price recovery of inventories recognized for improvement of economic conditions in 2020 and 2019 have been recognized as increase or decrease in costs of sales as follows:

	<u>2020</u>	<u>2019</u>
Loss from inventory devaluation (gain from price recovery of inventories)	<u>\$ 6,874</u>	<u>(6,734)</u>

None of the Consolidated Company's inventories have been pledged or guaranteed.

d. Acquisition of subsidiaries and non-controlling interests

Main Business Activities	2020			2019		
	Date of Acquisition	Acquisition percentage with voting rights	Transfer consideration	Date of Acquisition	Acquisition percentage with voting rights	Transfer consideration
APLIGO Hub and SI Service	-	- %	\$ -	2019.04.01	52%	\$ 32,387
Hawkeye Design and manufacturing of computers, network and computing equipment	2020.07.15	20.64%	197,041	2019.07.01	40%	405,000

The Consolidated Company acquired these companies for business expansion, and has acquired relevant development design and production technologies as well as logistics and customer services.

The transfer consideration for the acquisition of the subsidiaries above was fully paid in cash.

1) Acquisition of non-controlling interests

On July 15, 2020, the Consolidated Company further acquired equity of Hawkeye in cash amounting to NT\$197,041 thousand, so that its equity increased from 40% to 60.64%. The Consolidated Company conducted no transaction with non-controlling interests from January 1, 2020 to July 14, 2020.

The impacts of the changes in the Consolidated Company's ownership interests of Hawkeye upon the interests of attributable to the owner of the parent company are as follows:

Carrying amount of non-controlling interests acquired	\$ 53,707
Consideration paid for non-controlling interests	<u>(197,041)</u>
Retained earnings - the difference between the price received from acquisition of a subsidiary and its book value	<u>\$ (143,334)</u>

- 2) The operating results of the acquired companies from the acquisition date to December 31, 2019 are as follows:

	<u>APLIGO</u>	<u>Hawkeye</u>
Operating Revenue	<u>\$ 281,070</u>	<u>420,606</u>
Net profit for the year	<u>\$ 8,043</u>	<u>50,214</u>

If this acquisition occurred in January 1, 2019, the management estimated that the Consolidated Company's revenue and net profit would be NT\$1,080,685 thousand and NT\$96,800 thousand respectively in 2019. In determining such amounts, the management assumed that the acquisition had occurred on January 1, 2019, and that the tentative fair value adjustment on the acquisition date was the same.

- 3) The net assets acquired on the acquisition date and the goodwill amount recognized are as follows:

- a) Identifiable assets acquired and liabilities assumed

The details on the fair value of the identifiable assets acquired and liabilities assumed on the acquisition date are as follows:

	<u>APLIGO</u>	<u>Hawkeye</u>
Cash and cash equivalents	\$ 1,363	53,584
Accounts receivable	35,417	113,204
Other receivables	26,290	2,607
Inventories	37,380	131,359
Other current assets	175	39,070
Property, plant and equipment, net	1,484	51,308
Right-of-use assets	15,176	23,196
Intangible assets, net	2,629	30,571
Financial assets at fair value through other comprehensive income	10	-
Deferred income tax assets	-	182
Other non-current assets	-	4,989
Identifiable assets	<u>119,924</u>	<u>450,070</u>
Notes and Accounts Receivable	\$ (25,863)	(94,419)
Other payables	(22,334)	(36,481)
Current income tax liabilities	(27)	(9,775)
Other current liabilities	(13,351)	(8,602)
Lease liabilities	(15,295)	(23,237)
Short-term borrowings	(29,538)	-
Long-term liabilities maturing within 1 year or 1 operating cycle	-	(1,416)
Long-term borrowings	-	(27,104)
Liabilities assumed	<u>(106,408)</u>	<u>(201,034)</u>
Fair value of identifiable net assets	<u>\$ 13,516</u>	<u>249,036</u>

b) Goodwill

Goodwill recognized for acquisition is as follows:

	<u>APLIGO</u>	<u>Hawkeye</u>
Transfer consideration	\$ 32,387	405,000
Plus: non-controlling interests	6,488	149,422
Minus: fair value of identifiable net assets	<u>(13,516)</u>	<u>(249,036)</u>
Goodwill	<u><u>\$ 25,359</u></u>	<u><u>305,386</u></u>

e. Property, plant and equipment

Cost, depreciation and changes of the Consolidated Company's property, plant and equipment are as follows:

	<u>Land</u>	<u>Houses and buildings</u>	<u>Machinery</u>	<u>R&amp;D equipment</u>	<u>Other equipment</u>	<u>Total</u>
Cost:						
Balance on January 1, 2020	\$ 22,048	25,098	29,166	29,793	49,422	155,527
Increase	-	-	4,565	6,594	9,473	20,632
Penalties	-	-	(10,885)	(1,453)	(9,597)	(21,935)
Reclassification	-	-	514	-	-	514
Impacts of changes in exchange rates	<u>-</u>	<u>-</u>	<u>17</u>	<u>33</u>	<u>423</u>	<u>473</u>
Balance on December 31, 2020	<u><u>\$ 22,048</u></u>	<u><u>25,098</u></u>	<u><u>23,377</u></u>	<u><u>34,967</u></u>	<u><u>49,721</u></u>	<u><u>155,211</u></u>
Balance on January 1, 2019	\$ -	-	20,089	27,407	32,931	80,427
Gains from business combination (Note VI (IV))	22,048	24,242	8,958	-	10,467	65,715
Increase	-	-	1,470	60	2,922	4,452
Penalties	-	-	(3,380)	(1,263)	(82)	(4,725)
Reclassification	-	856	2,066	3,665	3,603	10,190
Impacts of changes in exchange rates	<u>-</u>	<u>-</u>	<u>(37)</u>	<u>(76)</u>	<u>(419)</u>	<u>(532)</u>
Balance on December 31, 2019	<u><u>\$ 22,048</u></u>	<u><u>25,098</u></u>	<u><u>29,166</u></u>	<u><u>29,793</u></u>	<u><u>49,422</u></u>	<u><u>155,527</u></u>
Depreciation and impairment loss:						
Balance on January 1, 2020	\$ -	1,567	16,384	16,184	36,432	70,567
Depreciation	-	793	6,167	6,411	6,447	19,818
Penalties	-	-	(10,885)	(1,453)	(9,594)	(21,932)
Impacts of changes in exchange rates	<u>-</u>	<u>-</u>	<u>15</u>	<u>31</u>	<u>354</u>	<u>400</u>
Balance on December 31, 2020	<u><u>\$ -</u></u>	<u><u>2,360</u></u>	<u><u>11,681</u></u>	<u><u>21,173</u></u>	<u><u>33,639</u></u>	<u><u>68,853</u></u>
Balance on January 1, 2019	\$ -	-	10,830	12,194	20,237	43,261



	<b>Land</b>	<b>Houses and buildings</b>	<b>Machinery</b>	<b>R&amp;D equipment</b>	<b>Other equipment</b>	<b>Total</b>
Gains from business combination (Note VI (IV))	-	1,170	2,771	-	8,982	12,923
Depreciation	-	397	6,198	5,323	6,069	17,987
Penalties	-	-	(3,380)	(1,263)	(82)	(4,725)
Reclassification	-	-	-	-	1,562	1,562
Impacts of changes in exchange rates	-	-	(35)	(70)	(336)	(441)
Balance on December 31, 2019	<u>\$ -</u>	<u>1,567</u>	<u>16,384</u>	<u>16,184</u>	<u>36,432</u>	<u>70,567</u>
Carrying amount:						
December 31, 2020	<u>\$ 22,048</u>	<u>22,738</u>	<u>11,696</u>	<u>13,794</u>	<u>16,082</u>	<u>86,358</u>
December 31, 2019	<u>\$ 22,048</u>	<u>23,531</u>	<u>12,782</u>	<u>13,609</u>	<u>12,990</u>	<u>84,960</u>

Please refer to Note VIII for details of the property, plant, and equipment of the Consolidated Company pledged as collateral for financing limit as of December 31, 2020, and 2019.

f. Right-of-use Assets

Details of changes in cost and depreciation of leased houses, buildings, machines and transportation equipment of the group are as follows:

	<b>Houses and buildings</b>	<b>Machinery</b>	<b>Transportation equipment</b>	<b>Total</b>
Costs of right-of-use assets:				
Balance on January 1, 2020	\$ 111,095	101	2,867	114,063
Increase	76,321	83	2,678	79,082
Impacts of changes in exchange rates	2,078	7	64	2,149
Decrease	<u>(6,265)</u>	<u>(39)</u>	<u>(373)</u>	<u>(6,677)</u>
Balance on December 31, 2020	<u>\$ 183,229</u>	<u>152</u>	<u>5,236</u>	<u>188,617</u>
Balance on January 1, 2019	\$ 74,728	-	621	75,349
Increase	37,631	104	2,309	40,044
Decrease	<u>(1,264)</u>	<u>(3)</u>	<u>(63)</u>	<u>(1,330)</u>
Balance on December 31, 2019	<u>111,095</u>	<u>101</u>	<u>2,867</u>	<u>114,063</u>
Depreciation of right-of-use assets				
Balance on January 1, 2020	\$ 45,794	45	1,446	47,285
Depreciation	52,655	77	1,905	54,637
Impacts of changes in exchange rates	711	5	33	749
Other decreases	<u>(4,155)</u>	<u>(39)</u>	<u>(373)</u>	<u>(4,567)</u>
Balance on December 31,	<u>\$ 95,005</u>	<u>88</u>	<u>3,011</u>	<u>98,104</u>

	<u>Houses and buildings</u>	<u>Machinery</u>	<u>Transportation equipment</u>	<u>Total</u>
2020				
Balance on January 1, 2019	\$ -	-	-	-
Depreciation	46,519	46	1,476	48,041
Other decreases	<u>(725)</u>	<u>(1)</u>	<u>(30)</u>	<u>(756)</u>
Balance on December 31, 2019	<u>\$ 45,794</u>	<u>45</u>	<u>1,446</u>	<u>47,285</u>
Carrying amount:				
December 31, 2020	<u>\$ 88,224</u>	<u>64</u>	<u>2,225</u>	<u>90,513</u>
December 31, 2019	<u>\$ 65,301</u>	<u>56</u>	<u>1,421</u>	<u>66,778</u>

g. Intangible Assets

	<u>Goodwill</u>	<u>Computer software and others</u>	<u>Total</u>
Cost:			
Balance on January 1, 2020	\$ 330,924	43,683	374,607
Purchase	-	746	746
Penalties	-	(5,696)	(5,696)
Impacts of changes in exchange rates	<u>1,046</u>	<u>110</u>	<u>1,156</u>
Balance on December 31, 2020	<u>\$ 331,970</u>	<u>38,843</u>	<u>370,813</u>
Balance on January 1, 2019	\$ 946	9,687	10,633
Gains from business combination (Note VI (IV))	330,745	33,200	363,945
Purchase	-	2,080	2,080
Prepayments for equipment	-	198	198
Penalties	-	(1,392)	(1,392)
Impacts of changes in exchange rates	<u>(767)</u>	<u>(90)</u>	<u>(857)</u>
Balance on December 31, 2019	<u>\$ 330,924</u>	<u>43,683</u>	<u>374,607</u>
Amortization and impairment loss:			
Balance on January 1, 2020	\$ 812	10,221	11,033
Current amortization	-	8,735	8,735
Penalties	-	(5,696)	(5,696)
Impacts of changes in exchange rates	<u>-</u>	<u>23</u>	<u>23</u>
Balance on December 31, 2020	<u>\$ 812</u>	<u>13,283</u>	<u>14,095</u>
Balance on January 1, 2019	\$ 812	5,557	6,369
Current amortization	-	6,061	6,061
Penalties	-	(1,392)	(1,392)
Impacts of changes in exchange rates	<u>-</u>	<u>(5)</u>	<u>(5)</u>
Balance on December 31, 2019	<u>\$ 812</u>	<u>10,221</u>	<u>11,033</u>

	<u>Goodwill</u>	<u>Computer software and others</u>	<u>Total</u>
Carrying amount:			
Balance on December 31, 2020	<u>\$ 331,158</u>	<u>25,560</u>	<u>356,718</u>
Balance on December 31, 2019	<u>\$ 330,112</u>	<u>33,462</u>	<u>363,574</u>

h. Short-term Loans

Details of the Consolidated Company's short-term loans are as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Unsecured loans	<u>\$ 15,000</u>	<u>153,264</u>
Unused limit	<u>\$ 1,970,020</u>	<u>1,510,326</u>
Interest rate	<u>1.6005%</u>	<u>0.8953~5.5%</u>

As of December 31, 2020 and 2019, the Consolidated Company hadn't used its assets as collateral for guaranteeing any bank loans.

Please refer to Note VI (XX) for details of critical risk information on interest rate, foreign currency and mobility risk of the Consolidated Company.

i. Long-term Loans

Details on long-term loans of the Consolidated Company are as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Secured bank loans	\$ 26,573	27,815
Less: the loans maturing within one year	<u>(1,367)</u>	<u>(1,427)</u>
Total	<u>\$ 25,206</u>	<u>26,388</u>
Unused limit	<u>\$ 210</u>	<u>-</u>
Interest rate	<u>1.2%</u>	<u>1.6%</u>

Please refer to Note VIII for details of guarantee for the Consolidated Company to use assets to pledge for guaranteeing bank loans as of December 31, 2020 and 2019.

Please refer to Note VI (XX) for details of critical risk information on interest rate, foreign currency and mobility risk of the Consolidated Company.

j. Corporate Bonds Payable

Details on corporate bonds payable of the Consolidated Company are as follows:

	<u>2020.12.31</u>
Amount of initial issued unsecured convertible corporate bonds	\$ 710,553
Unamortized balance of the discount of the bonds payable	(5,136)
Cumulative converted amount	<u>(530,377)</u>
Closing balance of bonds payable	<u>\$ 175,040</u>
Embedded derivatives - redemption rights (financial assets at fair value through profit or loss)	<u>\$ 373</u>
Equity components - conversion right (capital reserves - subscription right)	<u>\$ 4,775</u>
	<u>2020</u>
Interest expense	<u>\$ 5,465</u>

<u>Item</u>	<u>First domestic unsecured convertible corporate bonds</u>
1) Total amount of issue	T\$700,000 thousand
2) Nominal amount of issue	NT\$100 thousand
3) Issuance period	2020.2.10~2023.2.10
4) Bond term	3 years
5) Coupon rate	0%
6) Repayment upon maturity	The Company's corporate bonds maturing will be repaid in cash as the sum of their carrying amount and interests (101.5075% of the carrying amount and actual rate of return of 0.5%)
7) Redemption method	<p>a) If the closing price of the Company's ordinary shares in the stock exchange exceeds 30% (inclusive) of the current conversion price over 30 days during 40 days from the issuance date to forth days before the expiry of the issuance period, the Company shall redeem all convertible corporate bonds outstanding in cash based on the par value of such bonds.</p> <p>b) Where the balance of the outstanding convertible corporate bonds is below 10% of the total initial issued amount from the issuance date of the bonds to the following date of 3 months thereafter, the Company shall redeem all converted corporate bonds outstanding in cash based on the par value of such bonds anytime.</p> <p>c) Where a bondholder fails to respond to the Company's stock affairs agency in writing before the base date for recovering the bonds stated in the "bond recalling notice," the Company</p>

shall redeem the convertible corporate bonds held by the bondholder in cash based on the par value within five business days after the base date of recalling the bonds.

- 8) Conversion period      The bondholders may, from the following day after two months from the date of issuance of the convertible corporate bond to the expiration date, except for when the ownership transfer of ordinary shares are terminated from transferring by law, from 15 days prior to the date of the termination of the ownership transfer of the Company's stock dividends, cash dividends, or cash capital increase subscription to the base date of the distribution of rights, or from the date of the capital reduction to one day before the start of the trading day of the capital reduction for issuance of new shares, file a request to the Company's stock affairs agency through trading securities firms, while informing the Taiwan Depository & Clearing Corporation (hereinafter referred to as "TDCC"), to convert the convertible corporate bonds held into the Company's ordinary shares.
- 9) Conversion price and adjustment      The price of conversion was set at NT\$104.1 per share during issuance. In the event of an adjustment of the conversion price of the Company's ordinary shares in accordance with the terms of the issuance, the conversion price shall be adjusted in accordance with the formula stipulated in the terms of the issuance. From August 4, 2020, the price of conversion was adjusted as NT\$102.4 per share.

k. Lease liabilities

The carrying amount of the Consolidated Company's lease liabilities is as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Current	<u>\$ 42,147</u>	<u>41,893</u>
Non-current	<u>\$ 48,811</u>	<u>25,626</u>

Please refer to Note VI (XX) Financial instruments for details of maturity analysis.

The recognized profit and loss are as follows:

	<u>2020</u>	<u>2019</u>
Interest expense – lease obligations payable	<u>\$ 1,906</u>	<u>1,595</u>
Short-term lease expenses	<u>\$ 5,013</u>	<u>8,163</u>
Expense for leases of low-value assets	<u>\$ 105</u>	<u>69</u>

The amounts recognized in the statements of cash flows are:

	<u>2020</u>	<u>2019</u>
Total cash flows on lease	<u>\$ 61,949</u>	<u>58,264</u>

1) Lease of houses and buildings

The Consolidated Company leases houses and buildings as offices. The lease term of

offices is generally 2 to 3 years. Some leases include the option to extend for the term of the original lease contract when the lease expires.

The lease benefit of some agreements depends on changes in the local price index. Some agreements also stipulate that the Consolidated Company shall advance the Lessor's taxes and insurance expenses related to the property. These fees are usually incurred once a year.

The tenancy agreement of some equipment includes options for a lease extension or lease termination. These agreements are managed by corresponding jurisdictions. Therefore, the individual terms and conditions agreed are different for the Consolidated Company. These options are only enforceable by the Consolidated Company, not the lessor. Where it is not possible to reasonably determine that the optional lease extension will be exercised, the payment related to the period covered by the option is not included in the lease liability.

## 2) Other leases

The lease term of the transportation equipment rented by the Consolidated Company is 2 to 3 years. According to some lease contracts, the Consolidated Company is authorized to buy the rented assets at discretion upon expiry of the lease term, but in some other contracts, the Consolidated Company shall guarantee residual value of the rented assets when the lease term expires.

The lease term of machines and equipment rented by the Consolidated Company is 1 to 3 years. Such lease is short-term lease and/or lease of low-value subjects. The Consolidated Company chooses to follow the rules for recognition exemption, in order not to recognize related right-of-use assets and lease liabilities.

## 1. Employee Benefits

The defined contribution plan of the Consolidated Company complies with the rules on employees' pensions, which stipulate that the employees shall contribute 6% of their monthly wages. The contributions shall be paid to the employees' own special pension accounts created in the Bureau of the Labor Insurance. CMP's contributions to the Bureau of Labor Insurance for the employees' pension benefits require no further payment of additional legal or constructive obligations.

In 2020 and 2019, the pensions under the defined pension plan of the Company amounted to NT\$8,081 thousand and NT\$7,732 thousand respectively. The pensions under the defined pension plan of Hawkeye (a subsidiary of the Company) in 2020 and from July 1, 2019 to December 31, 2019 amounted to NT\$3,838 thousand and NT\$1,481 thousand respectively, all of which was paid to the Bureau of Labor Insurance.

As a subsidiary of the Company in Japan, CASO was established on August 1, 2014. The recognized pensions of this subsidiary in 2020 and 2019 amounted to NT\$664 thousand and NT\$0 thousand, which were paid to the related competent authority.

As a subsidiary of the Company in Mainland China, Beijing Caswell is bound by related rules of Mainland China. According to local government rules, it shall contribute employee pensions at certain ratio of the employees' monthly wages. The amount of pensions contributed in 2020 and 2019 was NT\$449 thousand and NT\$5,762 thousand respectively, which were paid to the related competent authority.

As a subsidiary of the Company in the United States, CAI was established on January 10, 2017, and no pension was incurred.

As a subsidiary of the Company in Germany, APLIGO was acquired in 2019, and no pension was incurred.

m. Income Tax

1) Income tax expense

Details of the income tax expense of the Consolidated Company are as follows:

	<u>2020</u>	<u>2019</u>
Current income tax expense		
Incurring in the current year	\$ 121,817	94,838
Deferred income tax		
Origination and reversal of temporary differences	<u>12,728</u>	<u>2,124</u>
Current income tax expense	<u><b>\$ 134,545</b></u>	<u><b>96,962</b></u>

The reconciliation of the Consolidated Company's income tax expenses and net pretax profit is as follows

	<u>2020</u>	<u>2019</u>
Net pretax profit	<u><b>\$ 551,382</b></u>	<u><b>424,362</b></u>
Income tax at the Company's domestic tax rate	\$ 110,276	84,872
Amount affected by the tax rate differences in foreign jurisdictions	31,085	15,973
Non-deductible expenses	(4,873)	(3,789)
Book-tax differences	(6,242)	(6,177)
Assessed differences	3,125	4,403
Surtax on undistributed earnings	2,369	4,384
Investment tax credit	<u>(1,195)</u>	<u>(2,704)</u>
Income tax expense	<u><b>\$ 134,545</b></u>	<u><b>96,962</b></u>

2) Recognized deferred tax assets and liabilities

Changes in deferred tax assets (liabilities) are as follows:

	<b>Gains and losses from inventory valuation</b>	<b>Unrealized exchange gains and losses</b>	<b>Others</b>	<b>Total</b>
<b>Balance on January 1, 2020</b>	\$ 1,780	2,984	(4,275)	489
(Debit) credit income statement	<u>893</u>	<u>(2,517)</u>	<u>(11,104)</u>	<u>(12,728)</u>
<b>Balance on December 31, 2020</b>	<b><u>\$ 2,673</u></b>	<b><u>467</u></b>	<b><u>(15,379)</u></b>	<b><u>(12,239)</u></b>
<b>Balance on January 1, 2019</b>	\$ 2,735	(387)	265	2,613
(Debit) credit income statement	<u>(955)</u>	<u>3,371</u>	<u>(4,540)</u>	<u>(2,124)</u>
<b>Balance on December 31, 2019</b>	<b><u>\$ 1,780</u></b>	<b><u>2,984</u></b>	<b><u>(4,275)</u></b>	<b><u>489</u></b>

3) Income tax assessment

The ROC income tax authorities have examined income tax returns of the Company and its subsidiary Hawkeye as of 2018.

n. Capital and other equity

As of December 31, 2020 and 2019, the total value of nominal stocks amounted to NT\$ 1,000,000 thousand, with a par value of NT\$10 per share, consisting of 100,000 thousand shares issued. 73,068 thousand and 68,036 thousand ordinary shares had been issued respectively. The payments for all issued shares have been received.

Below is the reconciliation statement for the number of outstanding shares of the Company for 2020 and 2019:

	<b>Ordinary shares</b>	
(presented in thousands of shares)	<b>2020</b>	<b>2019</b>
Beginning balance on January 1	\$ 67,826	67,433
Exercising of employee stock option	-	393
Conversion of convertible corporate bond	<u>5,032</u>	<u>-</u>
Closing balance on December 31	<b><u>\$ 72,858</u></b>	<b><u>67,826</u></b>

1) Issuance of ordinary shares

In 2020, the Company issued 5,032 thousand shares due to conversion rights exercised by the holders of convertible corporate bonds. The shares were issued as per par value with a total amount of NT\$50,321 thousand. The legal registration procedures have been completed.



2) Capital surplus

Balance of the Company's capital surplus is as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Share premium	\$ 1,392,532	919,344
Treasury share transactions	15,082	15,082
Stock option for convertible corporate bonds-	<u>4,775</u>	<u>-</u>
	<u><b>\$ 1,412,389</b></u>	<u><b>934,426</b></u>

In accordance with the Company Act, the capital surplus generated from the premium of stock issuance and donation may only be used to offset accumulated deficits. The above-mentioned realized capital surplus includes amount in excess of the face amount during shares issuance and acceptance of bestowal. In accordance with the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers," the total of capital surplus appropriated for capital every year shall not exceed 10% of the paid-in capital.

3) Retained earnings

Based on the Articles of Association, the annual earnings of the Company shall be first appropriated to offset accumulated losses before allocating 10% of the remaining earnings to the legal reserve (not applicable where accumulated legal reserve has reached the total amount of paid-in capital) and a special reserve in accordance to CMP's operating needs and pursuant to the applicable law and regulations. Any retained earnings available for distribution together with accumulated undistributed retained earnings may be proposed by the Board of Directors to appropriate and be resolved at the Annual General Meeting.

The dividend distribution of the shareholders of the Company can be distributed in cash or shares, in which the amount of shareholders' cash dividends is not less than 10% of the after-tax earnings of the current year and 10% of the total dividends of the shareholders. The Company is in a stage of growth. The Board of Directors shall propose the type and ratio of earnings distribution after considering the current operating conditions, shareholder equity, dividend policies and capital demands. The proposal shall be subject to adjustment through the resolution of the Board of Directors.

a) Legal reserve

If there is no loss, the Company may, by resolution of the shareholders' meeting, distribute new shares or cash from legal reserves, but only the portion of the reserve exceeding 25 percent of the paid-in capital shall be distributed.

b) Special reserve

Pursuant to Financial-Supervisory-Securities-Corporate-1010012865 issued on April 6, 2012, the Company shall allocate a special reserve of the same amount from the current profit/loss for the current year and the unappropriated earnings in the previous period for the net deduction of shareholders' equity incurred for the current year in distributing distributable earnings. For the deduction of other shareholders' equity for the preceding period, the special reserve of the same amount that should be allocated from the unappropriated earnings in the previous period shall not be distributed. If other shareholders' equity deductions are reversed afterward, the reversal may be applicable to the appropriation of

earnings.

c) Earnings distribution

The 2019 and 2018 distributions of earnings were resolved at the general shareholders' meetings on June 16, 2020 and June 5, 2019, respectively. The earnings distributed to owners are as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Dividends (NT\$)</u>	<u>Amount</u>	<u>Dividends (NT\$)</u>	<u>Amount</u>
Dividends distributed to owners of ordinary shares:				
Cash	\$ 2.82	<u>203,477</u>	3.50	<u>236,014</u>

4) Treasury shares

- a) According to clause 2, Article 28 of the Securities and Exchange Act, the Company transferred to its employees and redeemed 603 thousand treasury shares. The redemption amount was up to NT\$51,269 thousand. The changes in treasury shares in 2020 and 2019 are as follows

	<u>Number of Shares (in Thousands)</u>	<u>Amount</u>
Balance on December 31, 2020 (the same as the balance on January 1, 2020)	<u>210</u>	<u>\$ 17,856</u>
January 1, 2019	603	\$ 51,269
Exercising of employee stock option	<u>(393)</u>	<u>(33,413)</u>
December 31, 2019	<u>210</u>	<u>\$ 17,856</u>

- b) According to the Securities and Exchange Act, the treasury shares held by the Company may not be pledged, and before assignment, no shareholders' rights shall be enjoyed in such shares.

5) Other equity (net amount after tax)

	<b>Financial statements translation differences of foreign operations</b>	<b>Unrealized assessed gains (losses) on financial assets at fair value through other comprehensive income</b>	<b>Total</b>
January 1, 2020	\$ (22,299)	(10,450)	(32,749)
Exchange differences incurred by translating net assets of foreign operations	<u>2,681</u>	<u>-</u>	<u>2,681</u>
Balance on December 31, 2020	<u><b>\$ (19,618)</b></u>	<u><b>(10,450)</b></u>	<u><b>(30,068)</b></u>
January 1, 2019	\$ (13,067)	-	(13,067)
Unrealized assessed gains (losses) on financial assets at fair value through other comprehensive income	-	(10,450)	(10,450)
Exchange differences incurred by translating net assets of foreign operations	<u>(9,232)</u>	<u>-</u>	<u>(9,232)</u>
Balance on December 31, 2019	<u><b>\$ (22,299)</b></u>	<u><b>(10,450)</b></u>	<u><b>(32,749)</b></u>

o. Share-based payment

In 2020, the Consolidated Company conducted no share-based payment transaction. The share-based payment transaction concluded on December 31, 2019 is as follows:

	<b><u>Equity transactions</u></b>
	<b><u>Treasury shares transferred to employees</u></b>
Grant date	2019.12.6
Grant quantity	393 thousand shares
Contract term	-
Objects	All employees
Qualifications	Immediate vesting

1) Measurement parameters of fair value on the grant date

The Company adopts the Black-Scholes option pricing model to estimate the fair value of share-based payment at the grant date. The input value of this model is as follows:-

	<b>2019</b>
	<b>Treasury shares transferred to employees</b>
Fair value on the grant date (NT\$)	95.50
Share price on the grant date (NT\$)	95.50
Actual price (NT\$)	85.02

The determination of fair value does not take into account the services and non-market performance conditions included in the transaction.

2) Information on procedures for transferring treasury shares

Details of the procedures for transferring treasury shares are as follows:

(presented in thousands)

	<b>2019</b>	
	<b>Treasury shares transferred to employees</b>	
	<b>Weighted Average Striking Price (NTD)</b>	<b>Number of stock options</b>
Outstanding as of January 1	\$ -	-
Granted quantity in current period	85.02	393
Lost quantity in current period	-	-
Executed quantity in current period	(85.02)	<u>(393)</u>
Outstanding quantity as of December 31	-	<u>-</u>
Executable quantity as of December 31	-	<u>-</u>

3) Employee expenses

In 2019, the treasury shares transferred to the employees as remuneration amounted to NT\$4,119 thousand.

p. Earnings per Share

The basic and diluted earnings per share are calculated as follows:

	<u>2020</u>	<u>2019</u>
<b>Basic earnings per share:</b>		
Net income attributable to holders of the Company's ordinary shares	<u>\$ 372,353</u>	<u>288,980</u>
Weighted average number of outstanding ordinary shares (in thousands)	<u>70,369</u>	<u>67,460</u>
Basic earnings per share (NT\$)	<u>\$ 5.29</u>	<u>4.28</u>
<b>Diluted earnings per share:</b>		
Net income attributable to holders of the Company's ordinary shares	\$ 372,353	288,980
Effect of potentially dilutive common shares		
Conversion of convertible corporate bond	<u>2,272</u>	<u>-</u>
Profit attributable to the holders of ordinary shares of the company	<u>\$ 374,625</u>	<u>288,980</u>
Weighted average number of outstanding ordinary shares (basic) (in thousand)	70,369	67,460
Effect of potentially dilutive ordinary shares (in thousand)		
Shares transferred to employees as remuneration	117	123
Conversion of convertible corporate bond	<u>1,815</u>	<u>-</u>
Weighted average number of outstanding ordinary shares (diluted) (in thousand)	<u>72,301</u>	<u>67,583</u>
Diluted earnings per share (NT\$)	<u>\$ 5.18</u>	<u>4.28</u>

q. Revenue from Contracts with Customers

1) Breakdown of income

2020				
	<b>Domestic Operations Department</b>	<b>Mainland China Operation Department</b>	<b>Others</b>	<b>Total</b>
Major regional markets:				
Taiwan	\$ 156,625	-	-	156,625
Asia	1,374,707	475,053	223,344	2,073,104
America	1,801,539	-	384,354	2,185,893
Europe	721,548	-	326,461	1,048,009
Australia	2,166	-	-	2,166
Africa	-	-	58	58
	<b><u>\$ 4,056,585</u></b>	<b><u>475,053</u></b>	<b><u>934,217</u></b>	<b><u>5,465,855</u></b>
Main				
products/services:				
Network communication products	\$ 2,862,020	373,270	818,739	4,054,029
Mainboards for network communications	114,448	454	3,103	118,005
Other products for network communications	<u>1,080,117</u>	<u>101,329</u>	<u>112,375</u>	<u>1,293,821</u>
	<b><u>\$ 4,056,585</u></b>	<b><u>475,053</u></b>	<b><u>934,217</u></b>	<b><u>5,465,855</u></b>
2019				
	<b>Domestic Operations Department</b>	<b>Mainland China Operation Department</b>	<b>Others</b>	<b>Total</b>
Major regional markets:				
Taiwan	\$ 117,330	-	-	117,330
Asia	1,304,942	492,765	162,785	1,960,492
America	1,252,785	-	215,954	1,468,739
Europe	609,200	-	275,104	884,304
Africa	930	-	-	930
	<b><u>\$ 3,285,187</u></b>	<b><u>492,765</u></b>	<b><u>653,843</u></b>	<b><u>4,431,795</u></b>
Main				
products/services:				
Network communication products	\$ 2,173,470	378,601	576,445	3,128,516
Mainboards for network communications	101,307	387	4,315	106,009
Other products for network communications	<u>1,010,410</u>	<u>113,777</u>	<u>73,083</u>	<u>1,197,270</u>
	<b><u>\$ 3,285,187</u></b>	<b><u>492,765</u></b>	<b><u>653,843</u></b>	<b><u>4,431,795</u></b>

2) Contract balance

	<u>2020.12.31</u>	<u>2019.12.31</u>	<u>2019.1.1</u>
Notes and Accounts Receivable	\$ 1,059,356	1,071,256	1,117,661
Less: loss allowance	<u>(2,695)</u>	<u>(2,727)</u>	<u>(4,034)</u>
Total	<u><b>\$ 1,056,661</b></u>	<u><b>1,068,529</b></u>	<u><b>1,113,627</b></u>

Please refer to Note VI (II) for details of disclosed accounts receivable and their impairment.

r. Remuneration of Employees and Directors

Pursuant to the Articles of Incorporation, the Company shall allocate a minimum of 2% to 15% as employee compensation, and a maximum of 2% shall be allocated as the director's remuneration. When there are accumulated losses, the Company shall offset the appropriate amounts before remuneration. The above remuneration to the employees may be allotted in cash or in the form of shares. Eligible personnel includes employees at affiliates that meet given requirements. The remuneration shall be paid to directors in cash.

The amount presented as remuneration to employees and directors of the Company is as follows:

	<u>2020</u>	<u>2019</u>
Employee remuneration	\$ 12,000	10,000
Director remuneration	<u>3,600</u>	<u>3,200</u>
	<u><b>\$ 15,600</b></u>	<u><b>13,200</b></u>

The amount of remuneration to employees and directors in this period shall be estimated as the product between the net profit before tax of such period before deduction of the remuneration and the percentage of amount appropriated as such remuneration as specified in the Articles of Incorporation. It shall be presented as operating costs of expenses in that period.

The differences between actual employee/director remunerations and the estimated ones listed in the financial reports in 2019 and 2018 have been accounted by the Company as changes in accounting estimates sand presented as profits/(losses) of the following year. The differences are as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Employee remuneration</u>	<u>Director remuneration</u>	<u>Employee remuneration</u>	<u>Director remuneration</u>
Amount recognized in the financial statements	\$ 10,000	3,200	10,000	4,000
Actual distributed amount resolved by the Board of	<u>10,000</u>	<u>3,200</u>	<u>10,000</u>	<u>3,200</u>

directors

Differences      \$           -                -                -                800

Relevant information can be inquired from M.O.P.S.

s. Non-operating Income and Expenses

1) Income

Details of the Consolidated Company's interest income are as follows:

	<u>2020</u>	<u>2019</u>
Interests on bank deposits	<u>\$ 2,770</u>	<u>4,105</u>

2) Other income

Details of other income of the Consolidated Company are as follows:

	<u>2020</u>	<u>2019</u>
Other income	<u>\$ 14,785</u>	<u>10,604</u>

3) Other gains and losses

Details of other income and losses of the Consolidated Company are as follows:

	<u>2020</u>	<u>2019</u>
Losses from disposal of property, plant and equipment	\$ (2)	-
Foreign currency exchange losses	(7,298)	(15,234)
Gains from financial assets at fair value through profit or loss	2,214	-
Others	<u>(14)</u>	<u>(8)</u>
Net amount of other gains and losses	<u>\$ (5,100)</u>	<u>(15,242)</u>

4) Finance costs

Details of the Consolidated Company's finance costs are as follows:

	<u>2020</u>	<u>2019</u>
Bank loans	\$ (1,840)	(1,693)
Bonds payable	(5,465)	-
Lease liabilities	<u>(1,906)</u>	<u>(1,595)</u>
Total finance costs	<u>\$ (9,211)</u>	<u>(3,288)</u>



t. Financial Instruments

1) Credit risks

a) Maximum credit risk exposure

The carrying amount of financial assets represents the maximum credit risk exposure.

b) Concentration of credit risks

Potential credit risks of the Consolidated Company are mainly from trade receivables and notes receivable. In order to reduce the credit risk of receivables, the Consolidated Company continuously assesses the financial status of its clients and requires the counterparty to provide collateral or guarantees when necessary. The Consolidated Company still regularly evaluates the possibility of recovery of trade receivables and provides the allowance for loss. The impairment loss is within the expectation of the management. 48.87% and 44.42% of accounts receivable balances for the years ended on December 31, 2020 and 2019 respectively, were from three customers. This causes concentration of the Consolidated Company's credit risks.

c) Credit risk of receivables

Please refer to Note VI (II) for information on the credit risk exposure of notes receivable and trade receivables Other financial assets measured at amortized cost, including other receivables and certificates of deposit.

The above-mentioned financial assets have low credit risk, so the allowance loss is measured based on the amount of twelve-month expected credit loss the period (please refer to Note IV (VII) for details on how the Consolidated company determines the level of credit risk). Other receivables were not subject to allowance for loss in 2020 and 2019.

2) Liquidity risks

The following table shows the date on which the contracts of financial liabilities expire, including effects of estimated interests.

	<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>Less than 6 months</u>	<u>6 to 12 months-</u>	<u>12 years-</u>	<u>25 years-</u>	<u>Over 5 years</u>
<b>December 31, 2020</b>							
Non-derivative financial liabilities							
Bank loans (including short-term and long-term)	\$ 41,573	44,616	15,882	845	1,690	5,071	21,128
Notes and accounts payable (including related parties)	961,598	961,598	961,598	-	-	-	-
Other payables (including related parties)	183,243	183,243	183,243	-	-	-	-
Lease liabilities	90,958	93,318	27,036	16,559	29,601	20,122	-

	<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>Less than 6 months</u>	<u>6 to 12 months-</u>	<u>12 years-</u>	<u>25 years-</u>	<u>Over 5 years</u>
Convertible bonds	175,040	175,040	-	-	-	175,040	-
<b>Total</b>	<b><u>\$1,452,412</u></b>	<b><u>1,457,815</u></b>	<b><u>1,187,759</u></b>	<b><u>17,404</u></b>	<b><u>31,291</u></b>	<b><u>200,233</u></b>	<b><u>21,128</u></b>
<b>December 31, 2019</b>							
Non-derivative financial liabilities							
Bank loans (including short-term and long-term)	\$ 181,079	190,110	95,521	63,177	2,390	6,751	22,271
Notes and accounts payable (including related parties)	916,466	916,466	916,466	-	-	-	-
Other payables (including related parties)	148,433	148,433	148,433	-	-	-	-
Lease liabilities	67,519	70,142	29,707	26,185	9,464	4,786	-
<b>Total</b>	<b><u>\$1,313,497</u></b>	<b><u>1,325,151</u></b>	<b><u>1,190,127</u></b>	<b><u>89,362</u></b>	<b><u>11,854</u></b>	<b><u>11,537</u></b>	<b><u>22,271</u></b>

The Consolidated Company does not expect that the cash flow analyzed on the due date will occur significantly earlier or that the actual amount may vary significantly.

### 3) Exchange rate risk

#### a) Exposure to exchange rate risk

The Consolidated Company's significant exposure to foreign currency risk is as follows:

<b>2020.12.31</b>				
	<u>Foreign Currency</u>		<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>				
Monetary items				
USD	\$	31,762	USD: NTD=	28.48
JPY		169,902	JPY: NTD=	0.2763
<u>Financial liabilities</u>				
Monetary items				
USD		16,057	USD: NTD=	28.48

**2019.12.31**

	<u>Foreign Currency</u>		<u>Exchange Rate</u>		<u>NTD</u>
<u>Financial assets</u>					
Monetary items					
USD	\$	37,047	USD: NTD=	29.98	1,110,669
JPY		63,529	JPY: NTD=	0.276	17,534
<u>Financial liabilities</u>					
Monetary items					
USD		18,409	USD: NTD=	29.98	551,902

b) Sensitivity analysis

The Consolidated Company's exposure to foreign currency risk arises from cash and cash equivalents valued in foreign currency, trade receivables, other receivables, trade payables, other payables. They generate foreign exchange gains/losses at the time of translation. Where NTD depreciated or appreciated against USD and JPY by 10% as of December 31, 2020 and 2019, while all other factors were kept unchanged, the after-tax net income in 2020 and 2019 increased or decreased by NT\$39,538 thousand and NT\$46,104 thousand respectively. The depreciation and appreciation of both periods were analyzed on the same basis.

c) Exchange gain/loss of monetary items

As the Consolidated Company deals in diverse functional currencies, gains or losses on foreign exchange were summarized as a whole. For 2020 and 2019, the foreign exchange gains (losses), including both realized and unrealized, amounted to NT\$7,298 thousand and NT\$ 15,234 thousand, respectively.

4) Interest rate analysis

The interest risk exposure from financial assets and liabilities of the Consolidated Company has been disclosed in the notes to the Consolidated Financial Statements on liquidity risk management.

The sensitivity analysis below is performed based on the risk exposure of derivative and non-derivative instruments to the interest rates on the reporting date. For liabilities at floating interest rates, the analysis assumes they are outstanding throughout the reporting period if they are outstanding on the reporting date. The rate of change adopted is 1% increase/decrease in the interest rate, which also represents the management's assessment on the reasonably possible scope of the interest rate.

If the interest rate increases or decreases by 1%, the Consolidated Company's after-tax net income will decrease /increase by NT\$333 thousand and NT\$1,449 thousand in 2020 and 2019, respectively, assuming all other variable factors remain constant.

5) Information on fair value

a) Categories and fair value of financial instruments

The carrying amount and fair value of various types of financial assets and financial liabilities (including information on fair value level, then again the carrying amount of financial instruments not measured at fair value is a reasonable approximation, and the fair value of equity instrument investment without quotation in the active market that cannot be reliably measured, the fair value is not required to be disclosed according to regulations) are listed as follows:

	<b>2020.12.31</b>				
	<b>Carrying amount</b>	<b>Fair value</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit or loss</b>					
Financial assets at fair value through profit or loss	\$ 14,400	-	-	14,400	14,400
Financial assets at fair value through profit or loss	373	-	373	-	373
<b>Total</b>	<b>\$ 14,773</b>	<b>-</b>	<b>373</b>	<b>14,400</b>	<b>14,773</b>
<b>Financial assets at fair value through other comprehensive income</b>					
Non-publicly quoted equity instruments measured at fair value	<b>\$ 8,011</b>	<b>-</b>	<b>-</b>	<b>8,011</b>	<b>8,011</b>
<b>Financial assets at amortized cost</b>					
Cash and cash equivalents	\$ 750,334	-	-	-	-
Notes receivable and trade receivables (including related parties)	1,056,661	-	-	-	-
Other receivables	84,900	-	-	-	-
Other current assets	1,037	-	-	-	-
Refundable deposits	6,890	-	-	-	-
<b>Total</b>	<b>\$ 1,899,822</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities at amortized cost</b>					
Bank loans (including short-term and long-term)	\$ 41,573	-	-	-	-
Notes payable and trade payables (including related parties)	961,598	-	-	-	-
Other payables (including related parties)	183,243	-	-	-	-
Lease liabilities	90,958	-	-	-	-
Convertible bonds	175,040	-	175,040	-	175,040
<b>Total</b>	<b>\$ 1,452,412</b>	<b>-</b>	<b>175,040</b>	<b>-</b>	<b>175,040</b>

	2019.12.31				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through other comprehensive income</b>					
Non-publicly quoted equity instruments measured at fair value	\$ <b>10</b>	-	-	<b>10</b>	<b>10</b>
<b>Financial assets at amortized cost</b>					
Cash and cash equivalents	\$ 694,059	-	-	-	-
Notes receivable and trade receivables (including related parties)	1,068,529	-	-	-	-
Other receivables	69,914	-	-	-	-
Other current assets	1,032	-	-	-	-
Refundable deposits	8,640	-	-	-	-
Total	<u>\$ 1,842,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities at amortized cost</b>					
Bank loans (including short-term and long-term)	\$ 181,079	-	-	-	-
Notes payable and trade payables (including related parties)	916,466	-	-	-	-
Other payables (including related parties)	148,433	-	-	-	-
Lease liabilities	67,519	-	-	-	-
Total	<u>\$ 1,313,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

b) Valuation techniques of financial instruments measured at fair value

The fair value of financial instruments is determined with valuation techniques or with reference to quotes of counterparties. Fair value can be measured by using a valuation technique that refers to the fair value of financial instruments having substantially the same terms and characteristics, the discounted cash flow method, or other valuation technique (e.g., the one that applies market information available on the reporting date to a pricing model for calculation).

c) Significant unobservable inputs (Level 3) of fair value measurement

Level 3 fair value measurements of the Consolidated Company are categorized as financial assets at fair value through profit or loss - private equity investments

Level 3 fair value of the Consolidated Company only with significant unobservable input value. Quantitative information of significant unobservable input value is as follows:

<b>Item</b>	<b>Valuation technique</b>	<b>Significant unobservable input value</b>	<b>Relationship between significant unobservable input value and fair value measurement</b>
Financial assets at fair value through profit or loss - private equity investments	Net asset value method	Net asset value	N/A

- d) Sensitivity analysis of reasonably possible alternative assumptions on fair value measurements in Level 3

The Consolidated Company's measurement on the fair value of financial instruments may change if different valuation models or inputs are used. For financial assets classified as Level 3, if there are changes in evaluation parameters, the impact on current gains and losses is as follows:

	<b>Input value</b>	<b>Increase or decrease</b>	<b>Changes of fair value reflecting current profit or loss</b>	
			<b>Favorable changes</b>	<b>Unfavorable changes</b>
<b>December 31, 2020</b>				
Financial assets at fair value through profit or loss				
Private equity investment	14,400	1%	144	(144)

u. Financial Risk Management

1) Summary

The Consolidated Company is exposed to following risks for use of financial instruments:

- a) Credit risks
- b) Liquidity risks
- c) Market risks

This note presents information about the Consolidated Company's exposure to each of the above risks, objectives, policies and processes for measuring and managing risk. Please refer to relevant notes for details of further quantitative disclosure.

2) Objectives of financial risk management

The objective of the Consolidated Company's financial risk management is to manage exchange rate risks, interest rate risks, credit risks and liquidity risks related to operating activities. To reduce related financial risks, the Consolidated Company is committed to identifying, assessing and avoiding market uncertainties, so as to reduce potentially unfavorable effects of market changes on its financial performance.

Before engaging in significant financial activities, approval shall be obtained from the Board of Directors and according to the internal control system. During the execution of the financial plan, the Consolidated Company shall comply with relevant financial operation procedures on the overall financial risk management and segregation of duties at all times.

3) Credit risks

Credit risks refers to risks that cause the financial loss of the Consolidated Company due to a counterparty's late performance contractual obligations. Credit risks of the Consolidated Company mainly arise from receivables incurred by its business operations. Operations-related credit risks and financial credit risks are managed separately.

Operations-related credit risks

To maintain the quality of trade receivables, the Consolidated Company has established the procedures for credit risk management with regards to its operations. Risk assessment on individual customers includes factors that could affect customers' ability to pay, such as customers' financial status and credit ratings as well as the Consolidated Company's historical transactions, and current financial conditions. When appropriate, the Consolidated Company also use certain instruments for enhancing credit, including prepayments for goods and credit insurances, in order to reduce credit risks of specific customers.

Financial credit risks

The credit risks of bank deposits and other financial instruments are measured and monitored by the Consolidated Company's Finance Department. Given that the counterparty and other contract performing parties are banks with sound credit, financial institutions with investment level or above, corporate organizations and government authorities, there is no material credit risk for no material doubt about contract performance.

#### 4) Liquidity risks

Liquidity risks refers to the risks that the Consolidated Company is unable to deliver cash or other financial assets to pay off its financial liabilities and fail to meet its obligations.

The method the Consolidated Company adopts for managing liquidity lies in ensuring sufficient working capital to pay for due liabilities under normal and pressing circumstances, so as to avoid unacceptable losses or risk of damage to goodwill. In addition, the unused loan amounts of the Consolidated Company as of December 31, 2020 and 2019 totaled NT\$1,970,230 thousand and NT\$1,510,326 thousand, respectively.

#### 5) Market risks

Market risks refers to the risks that changes in market prices, such as exchange rate, interest rate, and equity instrument price will affect the earnings of the Consolidated Company or the value of the financial instruments it holds. The objective of market risk management lies in optimizing the investment return by controlling the market risk exposure within the bearable scope.

The Consolidated Company manages market risks. All transactions are concluded as instructed by the Board of Directors.

##### a) Exchange rate risks

Some cash inflow and outflow of the Consolidated Company are in foreign currency, so they are partially effective for naturally avoiding risks. The Consolidated Company manages exchange rate risks for the purpose of avoiding risks instead of making profits.

The strategy for managing exchange rate risks is to regularly review the net proportion of various assets and liabilities, and to perform risk management of this proportion. The instruments for avoiding exchange rate risks are chosen by considering the cost and period for risk avoidance.

##### b) Interest rate risks

The assets and liabilities held by the Consolidated Company at floating interest rate are exposed to interest rate risks of cash flow. The details of the assets and liabilities held by the Consolidated Company at floating interest rate are indicated in the liquidity risk management of this note.

#### v. Capital Management

Considering the industrial characteristics, future development, and changes in the environment, the Consolidated Company plans working capital, research and development expenses and dividends to safeguard its ability to continue as a going concern and to maintain an optimal capital structure, so as to provide more returns for shareholders in a long term.

In order to maintain or adjust its capital structure, the Consolidated Company may adjust the amount of dividends paid to shareholders by issuing new shares, distributing cash to shareholders or repurchasing its shares.

The Consolidated Company monitors its capital by regularly reviewing its debt to asset ratio. The Consolidated Company's capital is represented by "total equity" as indicated in its consolidated balance sheets, which is also equal to total assets minus total liabilities.



The debt to capital ratios as of December 31, 2010 and 2019 are as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Total liabilities	\$ 1,618,642	1,420,895
Less: Cash and cash equivalents	<u>750,334</u>	<u>694,059</u>
Net liabilities	<u>\$ 868,308</u>	<u>726,836</u>
Total equity	<u>\$ 3,246,761</u>	<u>2,749,393</u>
Debt to capital ratio	<u>26.74%</u>	<u>26.44%</u>

## 7. Related Party Transactions

### a. The Parent Company and the Ultimate Controlling Party

Ennoconn Corporation is the parent company of the Company and the ultimate controller of the group to which it belongs, holding 27.37% of the outstanding ordinary shares of the Company. Ennoconn Corporation has prepared consolidated financial statements for public use.

### b. Names and relations of related parties

The related parties trading with the Consolidated Company within the period of the financial report are as follows:

<u>Related party</u>	<u>Relationship with the Consolidated Company</u>
Ennoconn Corporation	Parent company of the Consolidated Company
Thecus Technology Corp.	Affiliates of the Consolidated Company
HON HAI PRECISION INDUSTRY	Affiliates of the Consolidated Company
HON LIN Technology Co., Ltd.	Affiliates of the Consolidated Company
Hongfujin PRECISION Industry (SHENZHEN) Co., Ltd.	Affiliates of the Consolidated Company
Goldtek Technology Co., Ltd.	Affiliates of the Consolidated Company
Foxconn Interconnect Technology Limited Taiwan Branch (Cayman)	Affiliates of the Consolidated Company
Kangzhun Electronics Technology (Kunshan) Co., Ltd.	Affiliates of the Consolidated Company
Ennoconn (Kunshan) Smart Technology Co., Ltd.	Affiliates of the Consolidated Company
Ennoconn (Suzhou) Technology Co.,Ltd.	Affiliates of the Consolidated Company
Vecow	Affiliates of the Consolidated Company
WT Microelectronics Co., Ltd.	Affiliates of the Consolidated Company
Thecus U.S.A., Inc.	Affiliates of the Consolidated Company
Thecus NL B.V.	Affiliates of the Consolidated Company
HighAim Technology Inc	Affiliates of the Consolidated Company
FORTUNE BAY TECHNOLOGY PTE. LTD.	Affiliates of the Consolidated Company
American Industrial Systems Inc.	Affiliates of the Consolidated Company
All directors, main management, President and Vice Presidents of the Company	

c. Significant Transactions with Related Parties

1) Operating revenue

The substantial sales amount of the Consolidated Company to related parties are as follows:

	<u>2020</u>	<u>2019</u>
Parent company	\$ 48	2
Affiliates	<u>258,616</u>	<u>105,791</u>
	<u><b>\$ 258,664</b></u>	<u><b>105,793</b></u>

The Consolidated Company's sales conditions for sales to related parties have no significant difference from the general selling prices. The collection term is O/A60 days to 100 days or monthly settled every 30 to 90 days. Accounts receivable among the related parties, for which no collateral security has been received, does not need to be recognized into expected credit loss after evaluation.

2) Purchases

Detail of the Consolidated Company's purchases from related parties are as follows:

	<u>2020</u>	<u>2019</u>
Parent company	\$ 7,158	2,770
Affiliate HON HAI PRECISION INDUSTRY-	443,675	585,553
Other affiliates-	<u>109,608</u>	<u>50,800</u>
	<u><b>\$ 560,441</b></u>	<u><b>639,123</b></u>

The prices for the Consolidated Company to make purchases from the above companies have no significant difference from the prices of its purchases from general manufacturers. The payment term is O/A60 to 90 days or monthly settled every 30 to 90 days, without significance difference from those of general manufacturers.

3) Receivables from related parties

The details of the Consolidated Company's receivables from related parties are as follows:

<u>Accounts</u>	<u>Type of stakeholders</u>	<u>2020.12.31</u>	<u>2019.12.31</u>
Accounts receivable	Affiliates	<u><b>\$ 67,374</b></u>	<u><b>38,585</b></u>

4) Payables to related parties

Details of the Consolidated Company's payables to related parties are as follows:

<u>Accounts</u>	<u>Type of stakeholders</u>	<u>2020.12.31</u>	<u>2019.12.31</u>
Trade payables	Parent company	\$ 1,174	-
Trade payables	Affiliate - HON HAI PRECISION INDUSTRY	101,941	49,717
Trade payables	Other affiliates	51,857	22,626
Other payables	Affiliates	<u>9,430</u>	<u>7,981</u>
		<u><b>\$ 164,402</b></u>	<u><b>80,324</b></u>

5) Acquisition of property, plant and equipment

The Consolidated Company's acquisition of property, plant and equipment from related parties is summarized as follows:

	<u>2020</u>	<u>2019</u>
Affiliates	<u><b>\$ 545</b></u>	<u><b>-</b></u>

In November 2020, the Consolidated Company purchased machines and equipment from its affiliates with a total amount of NT\$545 thousand. By December 31, 2020, all such payments had been fully made. For details of property, plant and equipment, refer to Note VI (V).

d. Transactions of major managerial personnel

1) Remuneration to major managerial personnel

Remuneration to major managerial personnel includes

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 60,370	38,398
Post-retirement benefits	<u>786</u>	<u>272</u>
	<u><b>\$ 61,156</b></u>	<u><b>38,670</b></u>

The Consolidated Company equips its major managerial personnel with cars. In 2020 and 2019, the historical costs of cars equipped for employees and related depreciation are respectively listed as follows:

	<u>2020</u>	<u>2019</u>
Historical costs	<u><b>\$ 7,971</b></u>	<u><b>10,427</b></u>
Depreciation	<u><b>\$ 997</b></u>	<u><b>1,051</b></u>

## 8. Pledged Assets

The carrying values of the Consolidated Company's pledged assets are as follows:

<b>Assets</b>	<b>Subject matter of pledge</b>	<b>2020.12.31</b>	<b>2019.12.31</b>
Other current assets (pledged time deposits)	Customs guarantee	\$ 1,037	1,032
Land, property, plant and equipment	Long-term borrowings	<u>43,345</u>	<u>23,531</u>
		<u><b>\$ 44,382</b></u>	<u><b>24,563</b></u>

9. Significant Contingent Liabilities or Unrecognized Contract Commitments: None.

10. Significant Disaster Loss: None.

11. Significant Events after the Date of Balance Sheets: None.

## 12. Others

- a. Employee benefits, depreciation and amortization by functions are summarized as follows:

<b>By functions</b>	<b>2020</b>			<b>2019</b>		
	<b>Operation costs</b>	<b>Operation expenses</b>	<b>Total</b>	<b>Operation costs</b>	<b>Operation expenses</b>	<b>Total</b>
<b>By nature</b>						
Employee benefits						
Salaries	87,465	310,206	397,671	63,241	232,297	295,538
Labor and health insurance premiums	8,913	32,437	41,350	7,344	23,351	30,695
Pensions	3,626	9,406	13,032	4,041	10,934	14,975
Remuneration of directors	-	8,855	8,855	-	7,079	7,079
Other employee benefits	6,022	13,291	19,313	4,281	10,896	15,177
Depreciation	30,421	44,034	74,455	27,422	38,606	66,028
Amortization expense	25	8,710	8,735	19	6,042	6,061

### 13. Supplementary Disclosures

#### a. Information on Significant Transactions

In accordance with the "Regulations Governing the Preparation of Financial Statements by Securities Issuers," the Consolidated Company discloses the information concerning significant transactions in 2020 as follows:

##### 1) Loans to others:

Unit: NTD/USD thousand

No.	Lender	Borrower	Current accounts	A related party or not	Maximum amount of current period	Ending balance	Actual amount drawn	Interest rate	Capital loan and nature (Note 1)	Transaction amount	Reason for short-term financing	Allowance for loss	Collateral		Capital loan for each counterparty and limits (Note 2)	Capital loans and total limits (Note 3)
													Name	Value		
0	The Company	Beijing Caswell Ltd.	Other receivables	Yes	14,240 (USD500)	-	-	2.00%	1	131,626	N/A	-	-	-	131,626	615,489
0	The Company	APLIGO GMBH	Other receivables	Yes	22,784 (USD800)	22,784 (USD800)	22,784 (USD800)	2.45%	2	-	Operations	-	-	-	307,745	615,489

(Note 1): 1. The Company has business relationships with them.

2. Short-term financing is needed.

(Note 2): 1. The loan for each counterparty shall not exceed the total amount of transactions the Company has concluded with it in the most recent year.

2. The loan for each counterparty shall not exceed 10% of the Company's net worth stated in the financial statements lately audited or reviewed by the CPAs.

(Note 3): The total loan amount shall not exceed 20% of the Company's net worth stated in the financial statements lately audited or reviewed by the CPAs.

(Note 4): The amounts of the foregoing transactions have been written down in preparing the consolidated financial statements.

2) Endorsements/guarantees for others: None.

3) Negotiable securities held at the end of the period (excluding investments in subsidiaries, affiliates and joint ventures):

Unit: NTD thousand/shares in thousands

Securities holding company	Type and name of securities	Relationship with issuer of securities	Accounts	Closing balance				Maximum shareholding or capital contribution during the period	Note
				Number of shares	Carrying amount	Shareholding ratio	Fair value		
The Company	Zhuoyi Equity Investment Center (Limited Partnership)	-	Financial assets at fair value through profit or loss - non-current-	-	14,400	- %	14,400	- %	-
The Company	Agile Industrial Control Co., Ltd.	-	Financial assets at fair value through other comprehensive income - non-current-	1,045	-	19.00 %	-	19.00%	-
The Company	SMARTHEAT INC	-	Financial assets at fair value through other comprehensive income - non-current-	800	8,000	16.00 %	8,000	16.00%	-
APLIGO GMBH	shares in Volksbank Karlsruhe	-	Financial assets at fair value through other comprehensive income - non-current-	-	11	- %	11	- %	-

- 4) Negotiable securities cumulatively purchased or sold amounting to NT\$0.3 billion or over 20% of the paid-in capital:

Unit: NTD thousand/shares in thousands

Company name	Type and name of securities	Accounts	Counterparty	Relationship	Beginning of Period		Purchase		Sale				Closing balance		Note
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Carrying cost	Gains (losses) on disposal	Number of shares	Amount	
The Company	Hawkeye	Investments accounted for using equity method	Hawkeye	Subsidiary	5,400	405,000	2,787	197,041	-	-	-	-	8,187	602,041	Note:

(Note): The transactions listed in the left column were written down in preparing the consolidated financial statements.

- 5) Acquisition of property amounting to NT\$300 million or over 20% of paid-in capital: None.
- 6) Disposal of property amounting to NT\$300 million or over 20% of paid-in capital: None.
- 7) Purchases from or sales to related parties amounting to NT\$100 million or over 20% of the paid-in capital:

Unit: NTD thousand

Companies for purchase and sales	Counterparty	Relationship	Transaction situation				Unusual transaction terms and reasons		Notes receivable (payable), trade receivables/payables		Note
			Purchases (Sales)	Amount	Ratio to total purchase (sales)	Credit period	Unit price	Credit period	Balance	Ratio to total notes receivable (payable) or trade receivables (payables)	
The Company	HON HAI PRECISION INDUSTRY	Affiliates	Purchases	425,967	12.21 %	Payment within 90 Days	- (Note 1)	- (Note 1)	(97,110)	(15.82)%	-
The Company	Beijing Caswell Ltd.	Subsidiary	(Sales)	(131,626)	(3.44) %	O/A 90 days	- (Note 1)	- (Note 1)	97,589	11.81%	(Note 2)
Beijing Caswell Ltd.	The Company	Parent company	Purchases	131,626	34.96 %	O/A 90 days	- (Note 1)	- (Note 1)	(97,589)	(43.53)%	(Note 2)
The Company	CASO, INC.	Subsidiary	(Sales)	(144,057)	(3.77) %	O/A 70 days	- (Note 1)	- (Note 1)	37,772	4.57%	(Note 2)
CASO, INC.	The Company	Parent company	Purchases	144,057	83.50 %	O/A 70 days	- (Note 1)	- (Note 1)	(37,772)	(93.54)%	(Note 2)
The Company	CASWELL AMERICAS, INC.	Subsidiary	(Sales)	(217,783)	(5.70) %	O/A 90 days	- (Note 1)	- (Note 1)	53,692	6.50%	(Note 2)
CASWELL AMERICAS, INC.	The Company	Parent company	Purchases	217,783	83.14 %	O/A 90 days	- (Note 1)	- (Note 1)	(53,692)	(96.69)%	(Note 2)
APLIGO GMBH	American Industrial Systems Inc.	Affiliates	(Sales)	(251,633)	(54.89) %	O/A 60 days	- (Note 1)	- (Note 1)	65,695	57.59%	-

(Note 1): Refer to general conditions.

(Note 2): The amount of above transactions was fully written down in preparing the consolidated financial statements.

- 8) Receivables from related parties amounting to NT\$100 million or over 20% of paid-up capital: None.
- 9) Derivatives transactions: None.

10) Business relations and significant transactions between the parent company and its subsidiaries:

Unit: NTD thousand

No.	Company	Counterparty	Relationship with the counterparty	Transactions			
				Accounts	Amount	Transaction terms	Ratio to total revenue or total assets
0	The Company	APLIGO GMBH	1	Sales revenue	28,088	Refer to general conditions	0.51%
0	The Company	HAWKEYE TECH, CO., LTD	1	Sales revenue	813	Refer to general conditions	0.01%
0	The Company	Beijing Caswell Ltd.	1	Sales revenue	131,626	Refer to general conditions	2.41%
0	The Company	CASO, INC.	1	Sales revenue	144,057	Refer to general conditions	2.64%
0	The Company	CASWELL AMERICAS, INC.	1	Sales revenue	217,783	Refer to general conditions	3.98%
1	HAWKEYE TECH, CO., LTD	The Company	2	Sales revenue	18,292	Refer to general conditions	0.33%
2	CASWELL AMERICAS, INC.	The Company	2	Sales revenue	6,983	Refer to general conditions	0.13%
0	The Company	APLIGO GMBH	1	Accounts receivable	4,325	Refer to general conditions	0.09%
0	The Company	CASO, INC.	1	Accounts receivable	37,772	Refer to general conditions	0.78%
0	The Company	CASWELL AMERICAS, INC.	1	Accounts receivable	53,692	Refer to general conditions	1.10%
0	The Company	Beijing Caswell Ltd.	1	Accounts receivable	97,589	Refer to general conditions	2.01%
1	HAWKEYE TECH, CO., LTD	The Company	2	Accounts receivable	419	Refer to general conditions	0.01%

Note I. The numbering rule is as follows:

1. 0 denotes the parent company.
2. Subsidiaries are sorted in a numerical order starting from 1.

Note II: Relationships with counterparties are listed as follows:

1. The parent company to subsidiaries.
2. Subsidiaries to the parent company.
3. Subsidiaries to subsidiaries.

Note III. For business relations and important transactions between the parent company and its subsidiaries, only information on sales and trade receivables will be disclosed. Corresponding purchase and trade payables won't be repeated.

b. Information on reinvestments (excluding investees in Mainland China):

Information on reinvestments of the Consolidated Company in 2020 is as follows:

Unit: NTD thousand/shares in thousands

Name of Investor	Name of investee	Location	Main business activities	Initial investment amount		Closing balance			Interim highest share holdings or capital contributions	Profit (loss) of investee for the period	Investment profit/loss recognized in the current period	Note
				End of the current period	End of preceding year	Number of shares	Ratio	Carrying amount (Note 1)				
The Company	CASO, INC.	Japan	Import and sales of network machines and computer peripherals	27,062	27,062	2	99.00%	67,205	99.00%	24,938	24,689	Subsidiary (Note 2)
The Company	CASWELL INTERNATIONAL INVESTMENT CO., LTD.	Samoa	Overseas Investment	101,135	101,135	3,206	100.00%	169,825	100.00%	27,619	27,619	Subsidiary (Note 2)
The Company	CASWELL AMERICAS, INC.	U.S.A.	Sales of netcom products	92,460	92,460	3,000	100.00%	51,179	100.00%	1,637	1,637	Subsidiary (Note 2)
The Company	APLIGO GMBH	Germany	Hub and SI Service	60,275	32,387	24	66.67%	68,767	66.67%	14,906	7,882	Subsidiary (Note 2)
The Company	HAWKEYE TECH. CO., LTD	Taiwan	Design and manufacturing of computers, network and computing equipment	602,041	405,000	8,187	60.64%	466,310	60.64%	59,994	22,776	Subsidiary (Note 2)

(Note 1): Including adjustment for foreign currency conversion

(Note 2): The amount of the transactions listed in the left column was fully written down in preparing the consolidated financial statements.

c. Information on investments in Mainland China:

1) Information on reinvestments in Mainland China

Unit: NTD/USD/RMB thousand

Investees in Mainland China	Main business activities	Paid-in capital	Method of investments (Note 1)	Accumulated amount of investments remitted from Taiwan at the beginning of the period (Note 2)	Amount of outward or recovered investments for the period (Note 2)		Accumulated amount of outward investments from Taiwan at the end of that period (Note 2)	Profit (loss) of investee for the period	Direct or indirect shareholding ratio of the Company	Maximum shareholding or capital contribution during the period	Investment profit (loss) recognized for the period	Carrying amount of investments at the end of the period	Accumulated return on investments recovered by the end of the period
					Outward investments	Recovered investments							
Beijing Caswell Ltd.	Production and sales of network communication products	108,224 (USD3,800)	(II)	88,744 (USD3,116)	-	-	88,744 (USD3,116)	33,724	82%	82%	27,653	194,297	-

(Note 1): There are three investment methods as follows:

- (I) Direct investment in Mainland China.
- (II) Reinvestment in Mainland China through companies in other areas
- (III) Other direct investments in subsidiaries of Mainland China made by the subsidiary CASWELL INTERNATIONAL.

(Note 2): Adopt closing exchange rate for conversion.

(Note 3): The amount of above transactions was fully written down in preparing consolidated financial statements.



2) Limits on investments in Mainland China

Unit: NTD/USD thousand

<b>Accumulated closing amount of outward investments from Taiwan to Mainland China</b>	<b>Amount of investments approved by the Investment Commission, M.O.E.A.</b>	<b>Ceiling on amount of investments in Mainland China stipulated by Investment Commission, M.O.E.A.</b>
88,744 (USD3,116)	88,744 (USD3,116)	1,846,468

Closing exchange rate: USD: 28.48; RMB: 4.377

Average exchange rate: USD: 29.5144; RMB: 4.2767

3) Significant transactions:

Please refer to the section titled "Information on significant transactions" for details of significant transactions, direct or indirect, between the Consolidated Company and its investees in Mainland China in 2020, which have been written off at the time of preparation of the consolidated financial statements.

d. Information on Major Shareholders:

<b>Name of Major Shareholders</b>	<b>Shareholding Number of Shares Held</b>	<b>Shareholding Ratio</b>
Ennoconn Corporation	20,000,000	27.37%
New Labor Pension Fund gives the second carte blanche to special account for investment of FH in 2008.	4,511,500	6.17%

Note: (1) The information of major shareholders in this table refers to the information calculated by Taiwan Depository & Clearing Corporation (TDCC) on the last business day at the end of each quarter on the total number of ordinary shares and preferred shares (including treasury shares) of the Company held by shareholders which have been delivered with book-entry registration at least 5 percent in total. However, the share capital recorded in the Company's financial report and the number of shares actually delivered by the Company without physical registration may differ due to calculation basis.

Note: (2) If the above information is about the circumstance that the shareholders have entrusted their shares to the trust institutions, it shall be disclosed by the trustor who opened the trust account with the trustee by the individual trust account. Shareholders shall register their shareholding as insider holding more than 10 percent of the shares in accordance with the Securities and Exchange Act, including the shares held by themselves plus the shares they have entrusted to the trust institutions and have the right to use the trust property. Please refer to the Market Observation Post System for information on insider equity registration.

## 14. Department Information

a. General Information

The Consolidated Company has three departments to be reported, namely the domestic business office and the Mainland China business office, which mainly engage in manufacturing and selling various computers and peripherals.

The Consolidated Company and other business units mainly specialize in selling various computers and peripherals. The above departments didn't reach any quantitative thresholds for reporting in 2020 and 2019.

b. Information involving profit or loss, asset, liability, and measurement basis and adjustment of reportable departments

The pretax profits (losses) of departments listed in internal management reports and audited by main business decision makers of the Consolidated Company are reckoned as basis for resource allocation and performance appraisal of the management. As tax expenses (income), extraordinary profit or loss and exchange gain or loss are recognized on the group level, the Consolidated Company does not allocate tax expenses (income), extraordinary profit or loss and exchange gain or loss to the reportable departments. Thus, not every reportable department includes material non-monetary items besides depreciation and amortization in the profit or loss. The amounts reported are aligning with the amount recorded in the report used by the operating decision makers.

The accounting policies of the business departments are the same as the "summary description of material accounting policies" in Note 4.

The Consolidated Company deems the inter-department sales and transfer as transaction with third parties. And such transactions are measured at current market price.

Information and adjustments of the Consolidated Company's operating segments are as follows:

	<b>2020</b>				
	<b>Domestic Operations Department</b>	<b>Mainland China Operation Department</b>	<b>All other departments</b>	<b>Adjustment and elimination</b>	<b>Total</b>
Revenue:					
Revenue from external customers	\$ 4,056,585	475,053	934,217	-	5,465,855
Interdepartment revenue	540,761	-	18,141	(558,902)	-
Total revenue	<u>\$ 4,597,346</u>	<u>475,053</u>	<u>952,358</u>	<u>(558,902)</u>	<u>5,465,855</u>
Profits (losses) of reportable departments	<u>\$ 432,347</u>	<u>33,723</u>	<u>69,100</u>	<u>(118,333)</u>	<u>416,837</u>
Assets of reportable departments	<u>\$ 4,513,286</u>	<u>533,371</u>	<u>537,086</u>	<u>(718,340)</u>	<u>4,865,403</u>
Liabilities of reportable departments	<u>\$ 1,193,466</u>	<u>296,586</u>	<u>351,780</u>	<u>(223,190)</u>	<u>1,618,642</u>

**2019**

	<b>Domestic Operations Department</b>	<b>Mainland China Operation Department</b>	<b>Others</b>	<b>Adjustment and elimination</b>	<b>Total</b>
Revenue:					
Revenue from external customers	\$ 3,285,187	492,765	653,843	-	4,431,795
Interdepartment revenue	<u>465,845</u>	<u>-</u>	<u>6,489</u>	<u>(472,334)</u>	<u>-</u>
Total revenue	<u><b>\$ 3,751,032</b></u>	<u><b>492,765</b></u>	<u><b>660,332</b></u>	<u><b>(472,334)</b></u>	<u><b>4,431,795</b></u>
Profits (losses) of reportable departments	<u><b>\$ 339,194</b></u>	<u><b>34,390</b></u>	<u><b>2,016</b></u>	<u><b>(48,200)</b></u>	<u><b>327,400</b></u>
Assets of reportable departments	<u><b>\$ 3,935,330</b></u>	<u><b>415,130</b></u>	<u><b>402,445</b></u>	<u><b>(582,617)</b></u>	<u><b>4,170,288</b></u>
Liabilities of reportable departments	<u><b>\$ 1,142,247</b></u>	<u><b>216,188</b></u>	<u><b>285,178</b></u>	<u><b>(222,718)</b></u>	<u><b>1,420,895</b></u>

c. Product and service information

Information on the Consolidated Company's revenue from external customers:

<b>Products and services</b>	<b>2020</b>	<b>2019</b>
Network communication systems and products	\$ 4,054,029	3,128,516
Mainboards for network communications	118,005	106,009
Other products for network communications	<u>1,293,821</u>	<u>1,197,270</u>
Total	<u><b>\$ 5,465,855</b></u>	<u><b>4,431,795</b></u>

d. Region Information

The region information of the Consolidated Company is as follows, in which the income is classified based on the geographical location of customers, while the non-current assets are classified based on the geographical location of the assets.

<u>Regions</u>	<u>2020</u>	<u>2019</u>
Revenue from external customers		
Taiwan	\$ 156,625	117,330
U.S.A.	2,184,921	1,339,578
Israel	1,133,559	1,043,534
China	475,245	492,765
United Kingdom	333,205	242,140
France	274,009	231,306
Others	<u>908,291</u>	<u>965,142</u>
	<b><u>\$ 5,465,855</u></b>	<b><u>4,431,795</u></b>
Non-current assets:		
Taiwan	\$ 138,652	164,371
China	50,306	7,855
Japan	4,611	2,694
U.S.A.	2,126	4,102
Others	<u>13,680</u>	<u>15,455</u>
Total	<b><u>\$ 209,375</u></b>	<b><u>194,477</u></b>

e. Information on Main Customers

<u>Customer Code</u>	<u>2020</u>	<u>2019</u>
Customer A	\$ 919,508	544,976
Customer B	<u>893,477</u>	<u>849,720</u>
Total	<b><u>\$ 1,812,985</u></b>	<b><u>1,394,696</u></b>