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**ASROCK INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2021 AND 2020**

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

Independent Auditors' Report Translated from Chinese

To ASROCK INC.

Opinion

We have audited the accompanying consolidated balance sheets of ASROCK INC.(the “Company”) and its subsidiaries (collectively the “Group”) as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2021 and 2020, and notes to the consolidated financial statements, including the summary of significant accounting policies (collectively “the consolidated financial statements”).

In our opinion, based on our audits and the reports of other auditors (please refer to the Other Matter paragraph), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2021 and 2020, and their consolidated financial performance and cash flows for the years ended December 31, 2021 and 2020, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries 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. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2021 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Inventory valuation

The net carrying value of inventory as of December 31, 2021 for ASROCK INC. and its subsidiaries amounted to \$9,719,405 thousand, which accounted for 61% of total assets and was significant to the consolidated financial statements. The Group's main business, the sale of motherboard products, are affected by market demand and changes. The management measured allowance for inventory obsolescence valuation losses based on market demands. The valuation involved management's significant judgement, we have therefore determined valuation on inventory a key audit matter. The audit procedures we performed regarding inventories valuation included but not limited to, understanding the program of estimating the allowance for inventory valuation, testing the effectiveness of relevant control. For the raw material and products, we selected samples and checked related certificates, to confirm the correctness of net realizable value that management used. In addition, we obtained and reviewed the full-year purchase and sales details of raw materials and products. For raw materials that are not frequently used and products with low sales volume, we referred to industry information and management to discuss the reasonableness of allowance for inventory valuation and obsolescence losses. We also considered the appropriateness of disclosure of inventories in Notes 5 and 6 of the Company's consolidated financial statements.

Revenue recognition

The main source of revenue was from the sales of motherboard. Due to diversified pricing strategy, the orders and implied item in contracts usually included quantity discount and warranty, therefore the Company and its subsidiaries should determine the performance obligation and the timing of revenue recognition. Consequently, we considered that revenue recognition from contracts with customers is key audit matter. For revenue recognition, we have conducted audit procedures including but not limited to evaluating the design and operating effectiveness of internal controls with respect to the revenue cycle, selecting representative samples to conduct test of transactions by inspecting contracts approved by both parties, identifying the performance obligation, evaluating whether the transaction price were appropriately allocated to all the performance obligations in the contract in proportion to the stand-alone selling prices of each performance obligation, and confirming the correctness of timing when a performance obligation is satisfied. We also considered the appropriation of operating revenue disclosure in Notes 4, 5 and 6 of consolidated financial statements.

Other Matter - Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets of \$1,612,326 thousand and \$2,106,436 thousand, constituting 10.14% and 17.98% of consolidated total assets as of December 31, 2021 and 2020, respectively, and total operating revenues of \$9,323,868 thousand and \$7,937,631 thousand, constituting 47.18% and 44.32 % of consolidated operating revenues for the years ended December 31, 2021 and 2020, respectively. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the audit reports of the other auditors.

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

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

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

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

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 that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2021 consolidated financial statements and are therefore the key audit matters. 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.

Other

We have audited and expressed an unqualified opinion including Other Matter Paragraph on the parent company only financial statements of the Company as of and for the years ended December 31, 2021 and 2020.

Yang, Chih-Huei

Yu, Chien- Ju

Ernst & Young, Taiwan

February 23, 2022

Notice to Readers

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

Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Consolidated Financial Statements Originally Issued in Chinese
ASROCK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

| Assets | Notes | As of | | | |
|---|----------------|---------------------|------------|---------------------|------------|
| | | December 31, 2021 | % | December 31, 2020 | % |
| Current assets | | | | | |
| Cash and cash equivalents | 4,6(1) | \$2,213,989 | 14 | \$2,763,147 | 23 |
| Financial assets measured at amortized cost - current | 4,6(2),6(11),8 | 1,276,355 | 8 | 778,959 | 6 |
| Accounts receivable, net | 4,6(3),6(11) | 1,858,239 | 12 | 1,632,537 | 14 |
| Accounts receivable - related parties, net | 4,6(3),6(11),7 | 37,642 | - | 16,629 | - |
| Inventories, net | 4,6(4) | 9,719,405 | 61 | 5,830,442 | 50 |
| Other current assets | 7 | 317,177 | 2 | 204,325 | 2 |
| Total current assets | | 15,422,807 | 97 | 11,226,039 | 95 |
| Non-current assets | | | | | |
| Financial assets measured at amortized cost - non-current | 4,6(2),6(11),8 | 2,389 | - | 41,002 | 2 |
| Property, plant and equipment | 4,6(5) | 241,976 | 2 | 240,208 | 2 |
| Right-of-use assets | 4,6(12) | 90,600 | - | 78,416 | - |
| Intangible assets | 4,6(6),7 | 5,775 | - | 6,775 | - |
| Deferred tax assets | 4,5,6(16) | 96,390 | 1 | 99,849 | 1 |
| Guarantee deposits paid | | 22,594 | - | 18,652 | - |
| Other non-current assets | | 11,419 | - | 4,870 | - |
| Total non-current assets | | 471,143 | 3 | 489,772 | 5 |
| Total assets | | \$15,893,950 | 100 | \$11,715,811 | 100 |

(Continued)

English Translation of Consolidated Financial Statements Originally Issued in Chinese
ASROCK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

| Liability and Equity | Notes | As of | | | |
|--|-----------------|---------------------|------------|---------------------|------------|
| | | December 31, 2021 | % | December 31, 2020 | % |
| Current liabilities | | | | | |
| Accounts payable | | \$4,389,601 | 28 | \$2,695,143 | 23 |
| Accounts payable - related parties | 7 | 67,237 | - | 34,447 | 1 |
| Other payables | 7 | 1,419,344 | 9 | 1,073,475 | 9 |
| Current tax liabilities | 4,5,6(16) | 538,877 | 4 | 270,345 | 2 |
| Lease liabilities - current | 4,6(12),6(14) | 42,713 | - | 38,123 | - |
| Other current liabilities | 7 | 555,828 | 4 | 214,134 | 2 |
| Total current liabilities | | 7,013,600 | 45 | 4,325,667 | 37 |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | 4,5,6(16) | 1,169 | - | 2,222 | - |
| Lease liabilities - non-current | 4,6(12),6(14) | 48,309 | - | 40,816 | 1 |
| Net defined benefit liabilities | 4,5,6(7) | 42,028 | - | 37,854 | - |
| Other non-current liabilities | | - | - | 816 | - |
| Total non-current liabilities | | 91,506 | - | 81,708 | 1 |
| Total liabilities | | 7,105,106 | 45 | 4,407,375 | 38 |
| Equity attributable to owners of the parent company | | | | | |
| Capital | | | | | |
| Common stock | 6(8) | 1,229,254 | 8 | 1,206,424 | 10 |
| Capital surplus | 6(8),6(9),6(18) | 3,332,351 | 21 | 3,134,705 | 27 |
| Retained earnings | | | | | |
| Legal reserve | 6(8) | 1,345,085 | 8 | 1,209,419 | 10 |
| Special reserve | 6(8) | 472,656 | 3 | 279,336 | 3 |
| Unappropriated retained earnings | 6(8),6(9),6(18) | 2,628,386 | 17 | 1,544,081 | 13 |
| Total retained earnings | | 4,446,127 | 28 | 3,032,836 | 26 |
| Other components of equity | 4 | (736,592) | (5) | (472,657) | (4) |
| Non-controlling interests | 6(8),6(18) | 517,704 | 3 | 407,128 | 3 |
| Total equity | | 8,788,844 | 55 | 7,308,436 | 62 |
| Total liabilities and equity | | \$15,893,950 | 100 | \$11,715,811 | 100 |

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
ASROCK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

| Accounting Items | Notes | For the years ended December 31, | | | |
|---|----------------------------------|----------------------------------|-------------|--------------------|-------------|
| | | 2021 | % | 2020 | % |
| Operating revenues | 4,5,6(10),7 | \$19,762,672 | 100 | \$17,911,584 | 100 |
| Operating costs | 6(4),6(6),6(7), 6(12),6(13),7 | (14,198,647) | (72) | (14,059,563) | (78) |
| Gross profit | | <u>5,564,025</u> | <u>28</u> | <u>3,852,021</u> | <u>22</u> |
| Operating expenses | 6(6),6(7),6(9) 6(12),6(13),7 | | | | |
| Sales and marketing expenses | | (814,882) | (4) | (634,699) | (4) |
| General and administrative expenses | | (423,594) | (2) | (323,138) | (2) |
| Research and development expenses | | (1,263,855) | (7) | (1,039,961) | (6) |
| Expected credit (losses) gains | 6(11) | (3,501) | - | 3,853 | - |
| Total operating expenses | | <u>(2,505,832)</u> | <u>(13)</u> | <u>(1,993,945)</u> | <u>(12)</u> |
| Net operating income | | <u>3,058,193</u> | <u>15</u> | <u>1,858,076</u> | <u>10</u> |
| Non-operating income and expenses | 6(14) | | | | |
| Interest income | | 12,880 | - | 20,229 | - |
| Other income | | 43,858 | - | 52,983 | - |
| Other gains and losses | | (54,163) | - | (74,609) | - |
| Finance costs | | (802) | - | (896) | - |
| Total non-operating income and expenses | | <u>1,773</u> | <u>-</u> | <u>(2,293)</u> | <u>-</u> |
| Profit from continuing operations before tax | | 3,059,966 | 15 | 1,855,783 | 10 |
| Income tax expenses | 4,5,6(16) | (600,028) | (3) | (347,200) | (2) |
| Profit from continuing operations | | <u>2,459,938</u> | <u>12</u> | <u>1,508,583</u> | <u>8</u> |
| Other comprehensive income | 4,6(15) | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | | |
| Losses on remeasurements of defined benefit plans | | (3,287) | - | (7,364) | - |
| Income tax related to items that will not be reclassified to profit or loss | | 657 | - | 1,473 | - |
| Items that may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences on translation of foreign financial statements | | (109,101) | - | (193,321) | (1) |
| Other comprehensive income, net of tax | | <u>(111,731)</u> | <u>-</u> | <u>(199,212)</u> | <u>(1)</u> |
| Total comprehensive income | | <u>\$2,348,207</u> | <u>12</u> | <u>\$1,309,371</u> | <u>7</u> |
| Profit attributable to: | | | | | |
| Owners of the parent company | | \$2,381,060 | | \$1,363,092 | |
| Non-controlling interests | | <u>78,878</u> | | <u>145,491</u> | |
| | | <u>\$2,459,938</u> | | <u>\$1,508,583</u> | |
| Comprehensive income attributable to: | | | | | |
| Owners of the parent company | | \$2,269,329 | | \$1,163,880 | |
| Non-controlling interests | | <u>78,878</u> | | <u>145,491</u> | |
| | | <u>\$2,348,207</u> | | <u>\$1,309,371</u> | |
| Earnings per share(NT\$): | 6(17) | | | | |
| Earnings per share - basic | | | | | |
| Profit from continuing operations | | <u>\$19.67</u> | | <u>\$11.30</u> | |
| Earnings per share - diluted | | | | | |
| Profit from continuing operations | | <u>\$19.53</u> | | <u>\$11.22</u> | |

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
ASROCK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANG IN STOCKHOLDERS' EQUITY
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

| | Equity attributable to owners of parent company | | | | | | | | | | | |
|---|---|--------------------|--------------------|------------------|----------------------------------|---|----------------------------|----------------|--------------------|---|---------------------------|--------------|
| | Retained earnings | | | | | Other components of equity | | | | Total equity attributable to owners of the parent company | Non-controlling interests | Total equity |
| | Capital | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Exchange differences on translation of foreign financial statements | Deferred compensation cost | Treasury stock | | | | |
| Balance as of January 1, 2020 | \$1,206,472 | \$3,129,659 | \$1,149,884 | \$186,407 | \$822,460 | \$(279,336) | \$(18,202) | \$- | \$6,197,344 | \$257,123 | \$6,454,467 | |
| Appropriation and distribution of 2019 retained earnings | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 59,535 | - | (59,535) | - | - | - | - | - | - | |
| Special reserve appropriated | - | - | - | 92,929 | (92,929) | - | - | - | - | - | - | |
| Cash dividends of common stock | - | - | - | - | (482,570) | - | - | - | (482,570) | - | (482,570) | |
| Profit in 2020 | - | - | - | - | 1,363,092 | - | - | - | 1,363,092 | 145,491 | 1,508,583 | |
| Other comprehensive income, net of tax in 2020 | - | - | - | - | (5,891) | (193,321) | - | - | (199,212) | - | (199,212) | |
| Total comprehensive income | - | - | - | - | 1,357,201 | (193,321) | - | - | 1,163,880 | 145,491 | 1,309,371 | |
| Treasury stock acquired | - | - | - | - | - | - | - | (48) | (48) | - | (48) | |
| Treasury stock cancelled | (48) | - | - | - | - | - | - | 48 | - | - | - | |
| Difference between consideration and carrying amount of subsidiaries acquired or disposed | - | 335 | - | - | (27) | - | - | - | 308 | (308) | - | |
| Changes in subsidiaries' ownership | - | (261) | - | - | - | - | - | - | (261) | 261 | - | |
| Share-based payment transaction | - | 4,972 | - | - | (519) | - | 18,202 | - | 22,655 | 1,785 | 24,440 | |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | 2,776 | 2,776 | |
| Balance as of December 31, 2020 | <u>\$1,206,424</u> | <u>\$3,134,705</u> | <u>\$1,209,419</u> | <u>\$279,336</u> | <u>\$1,544,081</u> | <u>\$(472,657)</u> | <u>\$-</u> | <u>\$-</u> | <u>\$6,901,308</u> | <u>\$407,128</u> | <u>\$7,308,436</u> | |
| Balance as of January 1, 2021 | \$1,206,424 | \$3,134,705 | \$1,209,419 | \$279,336 | \$1,544,081 | \$(472,657) | \$- | \$- | \$6,901,308 | \$407,128 | \$7,308,436 | |
| Appropriation and distribution of 2020 retained earnings | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 135,666 | - | (135,666) | - | - | - | - | - | - | |
| Special reserve appropriated | - | - | - | 193,320 | (193,320) | - | - | - | - | - | - | |
| Cash dividends of common stock | - | - | - | - | (965,139) | - | - | - | (965,139) | - | (965,139) | |
| Profit in 2021 | - | - | - | - | 2,381,060 | - | - | - | 2,381,060 | 78,878 | 2,459,938 | |
| Other comprehensive income, net of tax in 2021 | - | - | - | - | (2,630) | (109,101) | - | - | (111,731) | - | (111,731) | |
| Total comprehensive income | - | - | - | - | 2,378,430 | (109,101) | - | - | 2,269,329 | 78,878 | 2,348,207 | |
| Changes in subsidiaries' ownership | - | 3,581 | - | - | - | - | - | - | 3,581 | (3,581) | - | |
| Share-based payment transaction | 22,830 | 194,065 | - | - | - | - | (154,834) | - | 62,061 | 3,517 | 65,578 | |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | 31,762 | 31,762 | |
| Balance as of December 31, 2021 | <u>\$1,229,254</u> | <u>\$3,332,351</u> | <u>\$1,345,085</u> | <u>\$472,656</u> | <u>\$2,628,386</u> | <u>\$(581,758)</u> | <u>\$(154,834)</u> | <u>\$-</u> | <u>\$8,271,140</u> | <u>\$517,704</u> | <u>\$8,788,844</u> | |

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
ASROCK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

| | For the years ended December 31, | |
|---|----------------------------------|--------------------|
| | 2021 | 2020 |
| Cash flows from operating activities: | | |
| Profit before tax | \$3,059,966 | \$1,855,783 |
| Adjustments: | | |
| Adjustments to reconcile (profit) loss: | | |
| Depreciation expense | 84,062 | 72,865 |
| Amortization expense | 7,710 | 5,176 |
| Expected credit losses and gains | 3,501 | (3,853) |
| Interest expenses | 802 | 896 |
| Interest income | (12,880) | (20,229) |
| Compensation cost arising from employee stock options | 42,748 | 24,440 |
| (Gain) Loss on disposal of property, plant and equipment | (20) | 177 |
| Property, plant and equipment charged to expenses | - | 78 |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable, net | (228,812) | (55,927) |
| (Increase) Decrease in account receivable-related parties | (21,013) | 32,169 |
| Increase in inventories, net | (3,887,237) | (838,731) |
| (Increase) Decrease in other current assets | (87,032) | 62,313 |
| Increase in accounts payable | 1,694,458 | 247,171 |
| Increase (Decrease) in accounts payable-related parties | 32,790 | (54,715) |
| Increase in other payables | 345,869 | 230,180 |
| Increase in other current liabilities | 341,694 | 17,131 |
| Increase in net defined benefit liabilities | 887 | 909 |
| (Decrease) Increase in other non-current liabilities | (816) | 816 |
| Cash generated from operations | <u>1,376,677</u> | <u>1,576,649</u> |
| Income taxes paid | <u>(352,385)</u> | <u>(224,625)</u> |
| Net cash provided by operating activities | <u>1,024,292</u> | <u>1,352,024</u> |
| Cash flows from investing activities: | | |
| (Acquisition) Disposal of financial assets measured at amortized cost | (459,514) | 100,323 |
| Acquisition of property, plant and equipment | (46,392) | (34,884) |
| Proceed from disposal of property, plant and equipment | 20 | 20 |
| Increase in guarantee deposits paid | (3,942) | (5,902) |
| Acquisition of intangible assets | (6,710) | (8,959) |
| (Increase) Decrease in other non-current assets | (10,373) | 1,565 |
| Interest received | 10,071 | 21,308 |
| Net cash (used in) provided by investing activities | <u>(516,840)</u> | <u>73,471</u> |
| Cash flows from financing activities: | | |
| Cash payments for the principal portion of the lease liability | (42,686) | (35,750) |
| Cash dividends paid | (965,139) | (482,570) |
| Issuance of common stock for cash | 22,830 | - |
| Treasury stock acquired | - | (48) |
| Changes in non-controlling interests | 31,762 | 2,776 |
| Net cash used in financing activities | <u>(953,233)</u> | <u>(515,592)</u> |
| Effect of exchange rate fluctuations on cash held | <u>(103,377)</u> | <u>(182,907)</u> |
| Net (decrease) increase in cash and cash equivalents | (549,158) | 726,996 |
| Cash and cash equivalents, beginning of the year | <u>2,763,147</u> | <u>2,036,151</u> |
| Cash and cash equivalents, end of the year | <u>\$2,213,989</u> | <u>\$2,763,147</u> |

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
ASROCK INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

1. History and organization

ASROCK INC. (the Company) was approved to establish on May 10, 2002, and began its main business activities. The current main business is the sales of motherboards and related product development and design. The Company’s first public offering was approved by the Securities and Futures Bureau in May, 2006 and its common shares were publicly listed on the Taiwan Stock Exchange (TWSE) in November, 2007. The Company’s registered office and the main business location are at 2F., No. 37, Sec. 2, Jhongyang S. Rd., Beitou Dist., Taipei City 11270, Taiwan (R.O.C.). Pegatron Corporation is the ultimate controller of the group to which the company belongs.

2. Date and procedures of authorization of financial statements for issue

The consolidated financial statements of the Company and its subsidiaries (“the Group”) for the years ended December 31, 2021 and 2020 were authorized for issue by the Company’s board of directors on February 23, 2022.

3. Newly issued or revised standards and interpretations

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2021. The adoption of these new standards and amendments had no material impact on the Group.

(2) Standards or interpretations issued, revised or amended, by the International Accounting Standards Board (IASB) which are endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below.

| Item | New, Revised or Amended Standards and Interpretations | Effective Date issued by IASB |
|------|---|-------------------------------|
| a | Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements | 1 January 2022 |

- (a) Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements

A. Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendments updated IFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018. The amendments also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities. Besides, the amendments clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Conceptual Framework.

B. Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

C. Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments clarify what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

D. Annual Improvements to IFRS Standards 2018 - 2020

Amendment to IFRS 1

The amendment simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.

Amendment to IFRS 9 Financial Instruments

The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Amendment to Illustrative Examples Accompanying IFRS 16 Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 modifies the treatment of lease incentives relating to lessee’s leasehold improvements.

Amendment to IAS 41

The amendment removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2022. The standards and interpretations have no material impact on the Group.

- (3) Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, and not yet adopted by the Group as at the end of the reporting period are listed below.

| Items | New, Revised or Amended Standards and Interpretations | Effective Date issued by IASB |
|-------|--|-------------------------------|
| a | IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures | To be determined by IASB |
| b | IFRS 17 “Insurance Contracts” | January 1, 2023 |
| c | Classification of Liabilities as Current or Non-current – Amendments to IAS 1 | January 1, 2023 |
| d | Disclosure Initiative - Accounting Policies – Amendments to IAS 1 | January 1, 2023 |
| e | Definition of Accounting Estimates – Amendments to IAS 8 | January 1, 2023 |
| f | Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 | January 1, 2023 |

- (a) IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture.

- (b) IFRS 17 “Insurance Contracts”

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

IFRS 17 was issued in May 2017 and it was amended in 2020 and 2021. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after 1 January 2023 (from the original effective date of 1 January 2021); provide additional transition reliefs; simplify some requirements to reduce the costs of applying IFRS 17 and revise some requirements to make the results easier to explain. IFRS 17 replaces an interim Standard – IFRS 4 Insurance Contracts – from annual reporting periods beginning on or after January 1 2023.

(c) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

These are the amendments to paragraphs 69-76 of IAS 1 Presentation of Financial statements and the amended paragraphs related to the classification of liabilities as current or non-current.

(d) Disclosure Initiative - Accounting Policies – Amendments to IAS 1

The amendments improve accounting policy disclosures that to provide more useful information to investors and other primary users of the financial statements.

(e) Definition of Accounting Estimates – Amendments to IAS 8

The amendments introduce the definition of accounting estimates and included other amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to help companies distinguish changes in accounting estimates from changes in accounting policies.

(f) Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Group is still currently determining the potential impact of the standards and interpretations listed under (1), it is not practicable to estimate their impact on the Group at this point in time. The remaining new or amended standards and interpretations have no material impact on the Group.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended December 31, 2021 and 2020 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”), IFRSs, IASs, IFRIC and SIC, which are endorsed by the FSC.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statements

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- B. exposure, or rights, to variable returns from its involvement with the investee, and
- C. the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- A. the contractual arrangement with the other vote holders of the investee
- B. rights arising from other contractual arrangements
- C. the Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

- A. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- B. derecognizes the carrying amount of any non-controlling interest;
- C. recognizes the fair value of the consideration received;
- D. recognizes the fair value of any investment retained;
- E. recognizes any surplus or deficit in profit or loss; and
- F. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

| Name of the investors | Name of subsidiaries | Nature of Business | Percentage of ownership (%) | | Note |
|-------------------------------|--|--|-----------------------------|-------------------|--------|
| | | | December 31, 2021 | December 31, 2020 | |
| ASROCK INC. (The Company) | ASIAROCK TECHNOLOGY LIMITED | Investment holding | 100% | 100% | |
| The Company | LEADER INSIGHT HOLDINGS LIMITED | Investment holding | 100% | 100% | |
| The Company | ASROCK RACK INCORPORATION | Manufacture and sale of computer and peripheral | 59.67% | 62.05% | Note 2 |
| The Company | ASRock Industrial Computer Corporation | Manufacture and sale of computer and peripheral | 65.83% | 66.96% | Note 1 |
| The Company | SOARING ASIA LIMITED | International trade | 100% | 100% | |
| The Company | ASJade Technology Inc. | Software services | 78.57% | - | Note 3 |
| ASIAROCK TECHNOLOGY LIMITED | ASRock Europe B.V. | Data storage and sale of electronic material and international trade | 100% | 100% | |
| ASIAROCK TECHNOLOGY LIMITED | CALROCK HOLDINGS, LLC | Rent office building | 100% | 100% | |
| LEADER INSIGHT HOLDINGS LTD. | FIRSTPLACE INTERNATIONAL LTD. | Investment holding | 100% | 100% | |
| FIRSTPLACE INTERNATIONAL LTD. | ASRock America, Inc | Data storage and sale of electronic material and international trade | 100% | 100% | |

Note1: The Company paid \$300 thousand, \$246 thousand and \$266 thousand, respectively on January 13, March 23, and May 7, 2020. The purchase of 30 thousand shares, 20 thousand shares and 21 thousand shares of ASRock Industrial Computer Corporation from non-related parties increased the Company's original shareholding ratio from 67.38% to 67.46%, and then to 67.52% and 67.58%, respectively, and increased capital shares, which then increased capital surplus in the amount of \$69 thousand, \$5 thousand and \$3 thousand, respectively. Later, the employee stock option was processed on July 31, 2020, and the board of directors resolved to issue new shares, increasing the capital by \$6,848 thousand. Because the company did not subscribe according to the shareholding ratio, the original shareholding ratio of the Company after the capital increase was 67.58% reduced to 66.28%, and recognized capital reserve decreased by \$1,384 thousand. In addition, the Company paid \$1,295 thousand, \$1,302 thousand and \$452 thousand, respectively on September 30, December 7, and December 21, 2020. The purchase of 105 thousand shares, 103 thousand shares and 36 thousand shares of ASRock Industrial Computer Corporation from non-related parties increased the Company's original shareholding ratio from 66.28% to 66.58%, and then to 66.86% and 66.96%, respectively, and increased capital shares, which then increased capital surplus in the amount of \$124 thousand, \$155 thousand and \$53 thousand, respectively. Furthermore, the employee stock option plan was adopted on June 11, 2021, and the board of directors resolved to issue new shares, increasing the capital by \$6,132 thousand. Because the Company did not subscribe the shares according to the shareholding ratio, the shareholding ratio of the Company was reduced from 66.96% to 65.83% after the capital increase and the capital reserve decreased in the amount of \$6,644 thousand.

Note2: The Company purchased 2 thousand shares and 9 thousand shares of ASROCK RACK INCORPORATION from non-related parties at \$40 thousand and \$172 thousand on March 25, 2020 and April 15, 2020, respectively. Shares, resulting in the Company's original shareholding ratio increased from 62.02% to 62.03%, and then increased to 62.05%, and the capital reserve was reduced by \$20 thousand and \$54 thousand, and the recognized retained earnings due to insufficient capital reserve decreased by \$27 thousand. In addition, the board of directors resolved to cancel 191 thousand shares of the Company's treasury shares on April 22, 2021, which increased the Company's shareholding ratio from 62.05% to 62.43%, and the capital reserve was increased by \$2,383 thousand. Later the board of directors resolved to issue employee stock option to raise capital on July 14, 2021. Because the Company did not subscribe the shares according to the shareholding ratio, the Company's ownership was reduced from 62.43% to 59.66%, and the capital reserve increased by \$1,461 thousand. Furthermore, stock dividends were issued on August 24, 2021, which increased the capital. The shareholding ratio of the Company increased from 59.66% to 59.67%, and the capital reserve increased by \$67 thousand.

Note3: The Company purchased 8,250 thousand shares of ASJade Technology Inc. at \$103,125 thousand on November 10, 2021. The Company's shareholding ratio was 78.57%.

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IFRS 9 Financial Instruments are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following partial disposals are accounted for as disposals:

- A. when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- B. when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint arrangement control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and non-current distinction

An asset is classified as current when:

- A. The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- B. The Group holds the asset primarily for the purpose of trading
- C. The Group expects to realize the asset within twelve months after the reporting period
- D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- A. The Group expects to settle the liability in its normal operating cycle
- B. The Group holds the liability primarily for the purpose of trading
- C. The liability is due to be settled within twelve months after the reporting period
- D. The Group does not have an unconditional right to defer settlement of the liability for at least twelve 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.

(7) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within three months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- (a) the Group's business model for managing the financial assets and
- (b) the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, accounts receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

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

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (a) purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

- (c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
- i. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - ii. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Group made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

B. Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the balance sheet.

The Group measures expected credit losses of a financial instrument in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- (a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For accounts receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.
- (d) For lease receivables arising from transactions within the scope of IFRS 16, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

C. Derecognition of financial assets

A financial asset is derecognized when:

- (a) The rights to receive cash flows from the asset have expired
- (b) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (c) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

D. Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(10)Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials - Purchase cost on a weighted average cost basis.

Finished goods and work in progress - Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

In addition, the company’s great-grandson company-ASRock America, Inc.’s commodity inventory is calculated based on the actual purchase cost, using the first-in first-out method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

(11)Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

| | |
|-------------------------|--|
| Buildings | 5~39 years |
| Machinery and equipment | 2~5 years |
| Office equipment | 3~5 years |
| Lease improvement | Shorter of the lease period or the useful life |
| Other equipment | 2~7 years |

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(12) Leases

The Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
- (b) the right to direct the use of the identified asset

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Group for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximising the use of observable information.

Group as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Group recognizes right-of-use asset and lease liability for all leases which the Group is the lessee of those lease contracts.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Group measures the lease liability on an amortised cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Group measures the right-of-use applying a cost model.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Group accounted for as short-term leases or leases of low-value assets, the Group presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements comprehensive income.

For short-term leases or leases of low-value assets, the Group elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

(13) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Group can demonstrate:

- i) The technical feasibility of completing the intangible asset so that it will be available for use or sale
- ii) Its intention to complete and its ability to use or sell the asset
- iii) How the asset will generate future economic benefits
- iv) The availability of resources to complete the asset
- v) The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (1 to 3 years).

(14) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(15) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provision for warranties

A provision is recognized for expected warranty claims on products sold, based on past experience, management's judgement and other known factors.

(16) Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

(17) Revenue recognition

The Group's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follows:

Sale of goods

The Group manufactures and sells machinery. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Group is high-end machinery and revenue is recognized based on the consideration stated in the contract. For certain sales of goods transactions, they are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts to the Group estimates the discounts using the expected value method based on historical experiences. Revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, refund liability is recognized for the expected volume discounts.

The Group provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. And the warranty is accounted in accordance with IAS 37.

The credit period of the Group's sale of goods is from 30 to 90 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as accounts receivables. These accounts receivable usually have a short period and do not have a significant financial component.

Rendering of services

The Group provides services of product development. These services are separately priced or negotiated, and are recognized as revenue when the performance obligations are met.

(18) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore, fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- A. the date of the plan amendment or curtailment, and
- B. the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(19) Share-based payment transactions

The cost of equity-settled transactions between the Group and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Group recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

(20) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(b) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and changes of the future salary etc.

(c) Revenue recognition – sales returns and allowance

The Group estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, revenue is recognized to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Please refer to Note 6 for more details.

(d) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. As of December 31, 2021, please refer to Note 6 for the explanation of the Group's unrecognized deferred income tax assets.

(e) Accounts receivables—estimation of impairment loss

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(f) Inventories

Due to the rapid changes in technology and product demand, the Group assessed the inventory at the end of the reporting period due to normal wear and tear, obsolescence, or changes in market sales prices, and reduced inventory costs to net realizable value. The Group estimates the loss of obsolete inventories based on the product life cycle, historical experience, and subsequent inventory removal. Please refer to Note 6 for more details.

6. Contents of significant accounts

(1) Cash and cash equivalents

| | As of December 31, | |
|---|--------------------|--------------------|
| | 2021 | 2020 |
| Cash on hand | \$1,260 | \$1,362 |
| Cash in banks | 1,589,202 | 965,042 |
| Time deposits | 582,003 | 1,654,620 |
| Cash equivalents – Bonds with repurchase agreements | 41,524 | 142,483 |
| Total | <u>\$2,213,989</u> | <u>\$2,763,147</u> |

Cash and cash equivalents were not pledged. The pledged time deposits have been transferred to financial assets measured at amortized cost.

(2) Financial assets measured at amortized cost

| | As of December 31, | |
|----------------------------|--------------------|-----------|
| | 2021 | 2020 |
| Time deposit - Current | \$1,276,355 | \$778,959 |
| Time deposit - Non-current | \$2,389 | \$41,002 |

The Group classified certain financial assets as financial assets measured at amortized cost. Please refer to Note 6(11) for more details on loss allowance and Note 8 for more details on financial assets measured at amortized cost under pledge. Please refer to Note 12 for more details on credit risk.

(3) Accounts receivable and accounts receivable - related parties

| | As of December 31, | |
|---|--------------------|-------------|
| | 2021 | 2020 |
| Accounts receivable (total carrying amount) | \$1,883,310 | \$1,654,500 |
| Less: loss allowance | (25,071) | (21,963) |
| Subtotal | 1,858,239 | 1,632,537 |
| Accounts receivable - related parties (total carrying amount) | 37,642 | 16,629 |
| Less: loss allowance | - | - |
| Subtotal | 37,642 | 16,629 |
| Total | \$1,895,881 | \$1,649,166 |

Accounts receivables were not pledged.

Accounts receivables are generally on 30-90 day terms. The total carrying amount as of December 31, 2021 and 2020 were \$1,920,952 thousand and \$1,671,129 thousand, respectively. Please refer to Note 6(11) for more details on loss allowance of accounts receivable for the years ended December 31, 2021 and 2020. Please refer to Note 12 for more details on credit risk management.

(4) Inventories

| | As of December 31, | |
|-----------------|--------------------|-------------|
| | 2021 | 2020 |
| Raw materials | \$6,669,833 | \$2,750,488 |
| Work in process | 1,273,186 | 367,957 |
| Finished goods | 439,128 | 330,056 |
| Merchandise | 1,337,258 | 2,381,941 |
| Total | \$9,719,405 | \$5,830,442 |

For the years ended December 31, 2021 and 2020, the Group recognized \$14,198,647 thousand and \$14,059,563 thousand, respectively, in operating cost, including the reversal of inventories of \$10,211 thousand and the write-down of inventories of \$5,505 thousand, respectively. The benefit of falling prices is the sale of inventory commodities that have been listed as sluggish and falling prices.

No inventories were pledged.

(5) Property, plant and equipment

| | Land | Buildings | Machinery equipment | Office equipment | Leasehold improvement | Other | Total |
|--|----------|-----------|------------------------|---------------------|--------------------------|----------|-----------|
| Cost: | | | | | | | |
| As of January 1, 2021 | \$39,907 | \$155,853 | \$98,604 | \$11,019 | \$28,055 | \$50,039 | \$383,477 |
| Addition | - | 1,170 | 16,765 | 1,320 | 4,862 | 22,275 | 46,392 |
| Disposals | - | - | (3,458) | (401) | (4,780) | (2,013) | (10,652) |
| Reclassifications | - | - | 3,824 | - | - | (2,761) | 1,063 |
| Effect of movement in exchange rate | (1,139) | (4,463) | (439) | (206) | (75) | (143) | (6,465) |
| As of December 31, 2021 | \$38,768 | \$152,560 | \$115,296 | \$11,732 | \$28,062 | \$67,397 | \$413,815 |
| As of January 1, 2020 | \$41,985 | \$163,487 | \$134,545 | \$12,657 | \$23,308 | \$8,511 | \$384,493 |
| Addition | - | 473 | 17,924 | - | 6,400 | 10,087 | 34,884 |
| Disposals | - | - | (3,294) | (1,240) | (1,516) | (1,085) | (7,135) |
| Reclassifications | - | - | (49,722) | (22) | - | 32,718 | (17,076) |
| Effect of movement in exchange rate | (2,078) | (8,107) | (799) | (376) | (137) | (192) | (11,689) |
| As of December 31, 2020 | \$39,907 | \$155,853 | \$98,604 | \$11,019 | \$28,055 | \$50,039 | \$383,477 |
| Depreciation and impairment loss: | | | | | | | |
| As of January 1, 2021 | \$- | \$47,154 | \$38,615 | \$9,924 | \$13,463 | \$34,113 | \$143,269 |
| Depreciation | - | 5,632 | 19,757 | 611 | 5,009 | 11,270 | 42,279 |
| Disposals | - | - | (3,458) | (401) | (4,780) | (2,013) | (10,652) |
| Reclassifications | - | - | - | - | - | (1,035) | (1,035) |
| Effect of movement in exchange rate | - | (1,410) | (280) | (205) | (54) | (73) | (2,022) |
| As of December 31, 2021 | \$- | \$51,376 | \$54,634 | \$9,929 | \$13,638 | \$42,262 | \$171,839 |
| As of January 1, 2020 | \$- | \$43,610 | \$63,072 | \$10,727 | \$10,558 | \$4,683 | \$132,650 |
| Depreciation | - | 5,925 | 17,512 | 818 | 4,505 | 9,185 | 37,945 |
| Disposals | - | - | (3,098) | (1,240) | (1,516) | (1,084) | (6,938) |
| Reclassifications | - | - | (38,428) | (11) | - | 21,441 | (16,998) |
| Effect of movement in exchange rate | - | (2,381) | (443) | (370) | (84) | (112) | (3,390) |
| As of December 31, 2020 | \$- | \$47,154 | \$38,615 | \$9,924 | \$13,463 | \$34,113 | \$143,269 |
| Net carrying amount as of: | | | | | | | |
| December 31, 2021 | \$38,768 | \$101,184 | \$60,662 | \$1,803 | \$14,424 | \$25,135 | \$241,976 |
| December 31, 2020 | \$39,907 | \$108,699 | \$59,989 | \$1,095 | \$14,592 | \$15,926 | \$240,208 |

No Property, plant and equipment were pledged.

Expenses under the defined contribution plan for the years ended December 31, 2021 and 2020 were \$33,012 thousand and \$28,359 thousand, respectively.

Defined benefits plan

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company and its domestic subsidiaries assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute \$165 thousand to its defined benefit plan during the 12 months beginning after December 31, 2021.

As of December 31, 2021 and December 31, 2020, the Group's definite benefit plans are expected to expire in the year of 2037 and 2038.

Pension costs recognized in profit or loss for the years ended December 31, 2021 and 2020:

| | For the years ended | |
|---|---------------------|---------|
| | December 31, | |
| | 2021 | 2020 |
| Current period service costs | \$934 | \$812 |
| Net interest of defined benefit liability (asset) | 117 | 251 |
| Total | \$1,051 | \$1,063 |

Changes in the defined benefit obligation and fair value of plan assets are as follows:

| | As of | | |
|---|----------------------|----------------------|--------------------|
| | December 31, 2021 | December 31, 2020 | January 1, 2020 |
| Defined benefit obligation | \$67,812 | \$63,017 | \$53,593 |
| Plan assets at fair value | (25,784) | (25,163) | (24,012) |
| Other non-current liabilities – Accrued net defined benefit liabilities recognized on the consolidated balance sheets | \$42,028 | \$37,854 | \$29,581 |

Reconciliation of liability (asset) of the defined benefit plan is as follows:

| | Defined benefit obligation | Fair value of plan assets | Net benefit liability (asset) |
|--|----------------------------|---------------------------|-------------------------------|
| As of January 1, 2020 | \$53,593 | \$(24,012) | \$29,581 |
| Current period service costs | 812 | - | 812 |
| Net interest expense (income) | 456 | (205) | 251 |
| Subtotal | 54,861 | (24,217) | 30,644 |
| Remeasurements of the net defined benefit liability (asset): | | | |
| Actuarial gains and losses arising from changes in demographic assumptions | 2,512 | - | 2,512 |
| Actuarial gains and losses arising from changes in financial assumptions | 5,492 | - | 5,492 |
| Experience adjustments | 152 | - | 152 |
| Return on plan assets | - | (792) | (792) |
| Subtotal | 8,156 | (792) | 7,364 |
| Contributions by employer | - | (154) | (154) |
| As of December 31, 2020 | 63,017 | (25,163) | 37,854 |
| Current period service costs | 934 | - | 934 |
| Net interest expense (income) | 195 | (78) | 117 |
| Subtotal | 64,146 | (25,241) | 38,905 |
| Remeasurements of the net defined benefit liability (asset): | | | |
| Actuarial gains and losses arising from changes in demographic assumptions | (1,603) | - | (1,603) |
| Actuarial gains and losses arising from changes in financial assumptions | (3,833) | - | (3,833) |
| Experience adjustments | 9,102 | - | 9,102 |
| Return on plan assets | - | (379) | (379) |
| Subtotal | 3,666 | (379) | 3,287 |
| Contributions by employer | - | (164) | (164) |
| As of December 31, 2021 | \$67,812 | \$(25,784) | \$42,028 |

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

| | Pension plan (%) | |
|-------------------|--------------------|---------|
| | As of December 31, | |
| | 2021 | 2020 |
| Cash | 15.25% | 16.61% |
| Equity instrument | 49.91% | 52.93% |
| Debt instrument | 23.11% | 15.80% |
| Others | 11.73% | 14.66% |
| Total | 100.00% | 100.00% |

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

| | As of December 31, | |
|-----------------------------------|--------------------|-------|
| | 2021 | 2020 |
| Discount rate | 0.64% | 0.31% |
| Expected rate of salary increases | 3.00% | 3.00% |

A sensitivity analysis for significant assumption as at December 31, 2021 and 2020 is, as shown below:

| | For the years ended December 31, | | | |
|--|--|--|--|--|
| | 2021 | | 2020 | |
| | Increase in defined benefit obligation | Decrease in defined benefit obligation | Increase in defined benefit obligation | Decrease in defined benefit obligation |
| Discount rate increase by 0.5% | \$- | \$5,295 | \$- | \$5,256 |
| Discount rate decrease by 0.5% | 5,797 | - | 5,787 | - |
| Expected salary level increase by 0.5% | 5,629 | - | 5,600 | - |
| Expected salary level decrease by 0.5% | - | 5,203 | - | 5,149 |

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or expected salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(8) Equities

A. Common stock

The Company's authorized capital were both \$1,500,000 thousand as of December 31, 2021 and 2020 (Both reserve \$40,000 thousand of shares for employee stock options). The Company's issued capital were \$1,229,254 thousand and \$1,206,424 thousand as of December 31, 2021 and 2020, respectively, each at a par value of \$10. The Company issued 122,925,429 and 120,642,429 common shares as of December 31, 2021 and 2020, respectively. Each share has one voting right and a right to receive dividends.

The Company issued 2,300 thousand shares of restricted stock awards, which was resolved at the shareholders' meeting held on August 20, 2021. The total number of new shares issued on October 28, 2021 was 2,283 thousand shares at a per value of \$10, totaling \$22,830 thousand.

B. Capital surplus

| | As of December 31, | |
|---|--------------------|--------------------|
| | 2021 | 2020 |
| Additional paid-in capital | \$3,127,994 | \$3,127,994 |
| Difference between consideration given/received and carrying amount of interests in subsidiaries acquired disposed of | 335 | 335 |
| Increase (decrease) through changes in ownership interests in subsidiaries | 10,012 | 6,376 |
| Restricted stock to employees | 194,010 | - |
| Total | <u>\$3,332,351</u> | <u>\$3,134,705</u> |

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Treasury stock

On January 3, 2020, the treasury stocks in the amount of \$48 thousand in 5 thousand shares were repurchased due to the expiration of restricted employee awards by the resolution of the board of directors on April 29, 2020. The base date for a capital reduction was set on May 29, 2020. The statutory change of registration procedure has been completed.

D. Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- a. Payment of all taxes and dues;
- b. Offset prior years' operation losses;
- c. Set aside 10% of the remaining amount as legal reserve;
- d. Set aside or reverse special reserve in accordance with law and regulations; and
- e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, dividend appropriateness and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and the Company held a general meeting of shareholders on June 12, 2019 and passed a resolution to amend the company's articles of association, stating that if all or part of the dividends and bonuses are distributed in cash, the Board of Directors is authorized to make two-thirds The above-mentioned directors attend, and after more than half of the attending directors agree, and report to the shareholders' meeting; the share dividends must be submitted to the shareholders' meeting for resolution of distribution. The Company's Articles of Incorporation further provide that at least 10% of the dividends must be paid in the form of cash.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total paid-in capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

When the Company distributing distributable earnings, it shall set aside to special reserve, an amount equal to "other net deductions from shareholders" equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements for the adoption of IFRS, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed from the special reserve.

The FSC on 31 March 2021 issued Order No. Financial-Supervisory-Securities-Corporate-1090150022, which sets out the following provisions for compliance:

On a public company's first-time adoption of the IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside special reserve. For any subsequent use, disposal or reclassification of related assets, the Company can reverse the special reserve by the proportion of the special reserve first appropriated and distribute it.

Details of the 2021 and 2020 earnings distribution and dividends per share as approved by the board of directors' meeting and shareholders' meeting on February 23, 2022 and August 20, 2021, respectively, are as follows:

| | Appropriation of earnings | | Dividend per share (\$) | |
|------------------------------|---------------------------|-----------|-------------------------|--------|
| | 2021 | 2020 | 2021 | 2020 |
| Legal reserve | \$237,843 | \$135,666 | | |
| Special reserve | 109,101 | 193,320 | | |
| Common stock - cash dividend | 1,598,031 | 965,139 | \$13.00 | \$8.00 |

Please refer to Note 6(13) for details on employees' compensation and remuneration to directors and supervisors.

E. Non-controlling interests

| | For the years ended December 31, | |
|--|-------------------------------------|-----------|
| | 2021 | 2020 |
| Beginning balance | \$407,128 | \$257,123 |
| Profit attributable to non-controlling interests | 78,878 | 145,491 |
| Acquisition of additional interest in a subsidiary | - | (308) |
| Changes in subsidiaries' ownership | (3,581) | 261 |
| Changes in non-controlling interests (including share-based payment) | 35,279 | 4,561 |
| Ending balance | \$517,704 | \$407,128 |

(9) Share-based payment plans

Certain employees of the Group are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

(a) Restricted stock plan for employee of the parent entity

The parent company issued 2,300 thousand shares of restricted stock awards, which was resolved at the shareholders' meeting held on August 20, 2021. The grantees are limited to full-time employees of the parent company who meet specific requirements. The Company has already filed with the Securities and Futures Bureau of the FSC for approval of the issuance and was approved. The total number of new shares issued on October 28, 2021 was 2,238 thousand shares. The stock price on the grant date was \$145 per share.

Employees who have been granted the above-mentioned restricted stock awards can subscribe to the shares for \$10 with vesting conditions as follows:

- I. The company's performance
 1. If EPS in the previous year is better than \$10, the overall weight will be 100%.
 2. If EPS in the previous year is between \$7.5 and \$10, the overall weight will be 50%.
 3. If EPS in the previous year is below \$7.5, the overall weight will be 0%.
- II. Personal performance
 1. If the mid-year assessment is better than A (include A), the personal weight will be 100%.
 2. If the mid-year assessment is between B+ to A (excluding A), the personal will be weight 80%.
 3. If the mid-year assessment is between B to B+ (excluding B+), the personal will be weight 60%
 4. If the mid-year assessment is C, the personal weight will be 0%
- III. Employees who have been granted the above-mentioned restricted stock awards and have continued to serve in the company for one year from the grant date, and have not violated any laws, articles of incorporation, business ethics and code of conduct and other relevant regulations and agreements during their employment, can receive 40% of the vested shares multiplied by overall weight and personal weight.
- IV. Employees who have been granted the above-mentioned restricted stock awards and have continued to serve in the company for two years from the grant date, and have not violated any laws, articles of incorporation, business ethics and code of conduct and other relevant regulations and agreements during their employment, can receive 30% of the vested shares multiplied by overall weight and personal weight.

- V. Employees who have been granted the above-mentioned restricted stock awards and have continued to serve in the company for three years from the grant date, and have not violated any laws, articles of incorporation, business ethics and code of conduct and other relevant regulations and agreements during their employment, can receive 30% of the vested shares multiplied by overall weight and personal weight.

The vested new restricted stock awards shall be entrusted and may not be sold, pledged, transferred, gifted to others, created lien or otherwise disposed of in any other manner before the vested conditions are met. According to the parent company's new share issuance measures for restricted stock awards, after the new shares with restricted stock awards are issued, except for the restricted stock awards that are delivered to a trust and those that do not meet the vested conditions under the parent company's issuance measures, the rights of the other restricted stock are the same as the common shares issued by the company.

The detailed information of the above restricted stock awards are as follows:

| Vested period | Restricted stock to employee | | | |
|-------------------------------|------------------------------|----------|----------|-----------|
| | 1 years | 2 years | 3 years | Total |
| Original number of shares | 913,200 | 684,900 | 684,900 | 2,283,000 |
| Operating performance | | | | |
| issue ratio | 99.72% | 94.92% | 90.86% | |
| Estimated turnover rate | 9.45% | 16.03% | 20.00% | |
| Qualified rate of performance | 76.92% | 76.92% | 76.92% | |
| Vested shares | 634,273 | 419,902 | 382,939 | 1,437,114 |
| Embedded value | \$145 | \$145 | \$145 | |
| Labor cost | \$85,627 | \$56,687 | \$51,696 | \$194,010 |

The new shares issued by the parent company that restrict the rights of employees cannot be transferred within three years of the vesting period, but they still have the right to vote and distribute dividends. If an employee who has been allocated the restricted employee rights new shares resigns during the vesting period, he must return the restricted employee rights stock and the dividends already obtained.

(b) Share-based payment plan for employees of the subsidiary

(1) ASROCK RACK INCORPORATION

The board of directors of ASROCK RACK INCORPORATION resolved to issue 1,490 thousand shares of restricted stock awards on February 27, 2019. The grantees are limited to full-time employees of ASROCK RACK INCORPORATION who meet specific requirements. The company issued 1,490 thousand shares on March 4, 2019 to raise capital. The stock price on the grant date was \$5.53 per share.

Employees who have been granted the above-mentioned restricted stock awards and have continued to serve in the company for three years from the grant date, and have not violated any laws, articles of incorporation, business ethics and code of conduct and other relevant regulations and agreements during their employment, can receive 50% of the vested shares. Upon maturity of the fourth year, if the employee has not violated any laws, articles of incorporation, business ethics and code of conduct and other relevant regulations and agreements during the fourth year, such employee will be entitled to the remaining 50% of the vested shares. The employee shall deliver the restricted stock awards that have been subscribed to a trust, and such shares shall not be sold, pledged, transferred, gifted to others, created lien, or otherwise dispose of in any other manner before the vested conditions are met. According to the parent company's new share issuance measures for restricted stock awards, after the new shares with restricted stock awards are issued, except for the restricted stock awards that are delivered to a trust and those that do not meet the vested conditions under the parent company's issuance measures, the rights of the other restricted stock are the same as the common shares issued by the company.

The detailed information of the above restricted stock awards are as follows:

| Vested period | Restricted stock to employee | | | | |
|---|------------------------------|---------|---------|---------|-----------|
| | 1 years | 2 years | 3 years | 4 years | Total |
| Original number of shares | - | - | 745,000 | 745,000 | 1,490,000 |
| Estimated turnover rate | - | - | 15.00% | 20.00% | |
| Vested shares after considering the turnover rate | - | - | 633,250 | 596,000 | 1,229,250 |
| Embedded value | \$- | \$- | \$5.53 | \$5.53 | |
| Labor cost | \$- | \$- | \$3,501 | \$3,296 | \$6,797 |

On May 29, 2020, ASROCK RACK INCORPORATION issued employee share options with a total number of 1,500 thousand units. Each unit entitles an optionee to subscribe for one share of the subsidiary's common shares. Settlement upon the exercise of the options will be made through the issuance of new shares. The options will be granted to employees meeting certain conditions set by the company. The options will mature in 18 months. The optionee may exercise the options in accordance with certain schedules as prescribed by the plan starting 1 year from the grant date. The share option exercise price is \$22 per share. After the option is issued, if the total number of issued common shares of the company changes, the subscription price will not be adjusted.

The fair value of the share options is estimated at the grant date using a binomial option pricing-model, taking into account the terms and conditions upon which the share options were granted.

The relevant details of the aforementioned share-based payment plan are as follows:

| Date of grant | Total number of share options granted (in thousands) | Exercise price of share options (\$) |
|---------------|--|--------------------------------------|
| 2020.05.29 | 1,500 | 22 |

The following table lists the inputs to the model used for the plan granted for the year ended December 31, 2020:

| | For the year ended December 31, 2020 |
|-----------------------------------|--------------------------------------|
| Expected volatility (%) | 30.95 |
| Risk-free interest rate (%) | 0.2763 |
| Expected option life (Years) | 1.5 |
| Weighted average share price (\$) | 11.72 |
| Option pricing model | Binomial option pricing model |

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The following table contains further details on the aforementioned share-based payment plan:

| | For the years ended December 31, | | | |
|--|--|---|--|---|
| | 2021 | | 2020 | |
| | Number of share options outstanding (in thousands) | Weighted average exercise price of share options (\$) | Number of share options outstanding (in thousands) | Weighted average exercise price of share options (\$) |
| Outstanding as of January 1 | 1,500 | \$22 | - | \$- |
| Granted | - | - | 1,500 | 22 |
| Forfeited | (50) | - | - | - |
| Exercised | (1,450) | 22 | - | - |
| Outstanding as of December 31 | - | - | 1,500 | 22 |
| Exercisable as of December 31 | - | - | - | - |
| For share options granted during the period, weighted average fair value of those options at the measurement date (\$) | \$- | | \$0.11 | |

The information on the outstanding share options as of December 31, 2021 and 2020, is as follows:

| | Exercise price | Weighted average remaining contractual life (Years) |
|--|----------------|---|
| As of December 31, 2021 | | |
| Share options outstanding at the end of the period | \$- | - |
| As of December 31, 2020 | | |
| Share options outstanding at the end of the period | \$22 | 0.91 |

(2) ASRock Industrial Computer Corporation

On January 15, 2019 and April 20, 2021, ASRock Industrial Computer Corporation issued employee share options with a total number of 1,500 thousand and 2,200 thousand units, respectively. Each unit entitles an optionee to subscribe for one share of the subsidiary's common shares. Settlement upon the exercise of the options will be made through the issuance of new shares. The options will be granted to employees meeting certain conditions set by the company. The options will mature in 30 months and 42 months. The optionee may exercise the options in accordance with certain schedules as prescribed by the plan starting 1 year from the grant date. The share option exercise price is \$10 and \$14.5 per share. After the option is issued, if the total number of issued common shares of the company changes, the subscription price will not be adjusted.

The fair value of the share options is estimated at the grant date using a binomial option pricing-model, taking into account the terms and conditions upon which the share options were granted.

The relevant details of the aforementioned share-based payment plan are as follows:

| Date of grant | Total number of share options granted (in thousands) | Exercise price of share options (\$) |
|---------------|--|--------------------------------------|
| 2019.01.15 | 1,500 | 10 |
| 2021.04.20 | 2,200 | 12.5 |

The following table lists the inputs to the model used for the plan granted on January 15, 2019 and April 20, 2021:

| | As of | |
|-----------------------------------|-------------------------------|----------------|
| | January 15, 2019 | April 20, 2021 |
| Expected volatility (%) | 31.74 | 29.61~31.19 |
| Risk-free interest rate (%) | 0.5741 | 0.1185~0.2523 |
| Expected option life (Years) | 2.5 | 1.5~3.5 |
| Weighted average share price (\$) | 8.1 | 12.49 |
| Option pricing model | Binomial option pricing model | |

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The following table contains further details on the aforementioned share-based payment plan:

As of January 15, 2019

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Number of share options outstanding (in thousands) | Weighted average exercise price of share options (\$) | Number of share options outstanding (in thousands) | Weighted average exercise price of share options (\$) |
| Outstanding as of January 1 | 750 | \$10 | 1,500 | \$10 |
| Granted | - | - | - | - |
| Exercised | (613) | 10 | (685) | 10 |
| Forfeited | (137) | - | (65) | - |
| Outstanding as of December 31 | - | 10 | 750 | 10 |
| Exercisable as of December 31 | - | - | - | - |
| For share options granted during the period, weighted average fair value of those options at the measurement date (\$) | | \$- | | \$- |

The information on the outstanding share options as of December 31, 2021 and 2020, is as follows:

| | Exercise price | Weighted average remaining contractual life (Years) |
|---|----------------|--|
| As of December 31, 2021 | | |
| Share options outstanding at the end of the period | \$- | - |
| As of December 31, 2020 | | |
| Share options outstanding at the end of the period | \$10 | 0.54 |

As of April 20, 2021

| | For the year ended December 31, | |
|--|---|---|
| | 2021 | |
| | Number of share options outstanding (in thousands) | Weighted average exercise price of share options (\$) |
| Outstanding as of January 1 | - | \$- |
| Granted | 2,200 | 12.5 |
| Exercised | - | |
| Outstanding as of December 31 | <u>2,200</u> | <u>12.5</u> |
| Exercisable as of December 31 | <u>-</u> | <u></u> |
| For share options granted during the period, weighted average fair value of those options at the measurement date (\$) | | <u>\$1.29</u> |

The information on the outstanding share options as of December 31, 2021, is as follows:

| | Exercise price | Weighted average remaining contractual life (Years) |
|---|----------------|--|
| As of December 31, 2021 | | |
| Share options outstanding at the end of the period | \$12.5 | 2.8 |

(c) Modification or cancellation of the share-based payment plan for employees

No modification or cancellation of share-based payment plan has occurred in the year ended December 31, 2021.

(d) The expense recognized for employee services received during the years ended December 31, 2021 and 2020, is shown in the following table:

| | For the years ended December 31, | |
|---|-------------------------------------|-----------------|
| | 2021 | 2020 |
| Expense arising from share-based payment transaction (All of arising from equity-settled share-based payment transaction) | <u>\$42,748</u> | <u>\$24,440</u> |

(10) Operating revenues

A. Disaggregation of revenue

| | For the years ended December 31, | |
|---|-------------------------------------|---------------------|
| | 2021 | 2020 |
| Revenue from contracts with customers | | |
| Sale of goods | \$19,685,407 | \$17,847,816 |
| Revenue arising from rendering services | 77,265 | 63,768 |
| Total | <u>19,762,672</u> | <u>\$17,911,584</u> |

B. The Group's revenue from contracts with customers is recognized at certain points in time.

(11) Expected credit (gains) losses

| | For the years ended December 31, | |
|---|-------------------------------------|------------------|
| | 2021 | 2020 |
| Operating expenses – expected credit losses (gains) | | |
| Accounts receivables | <u>\$3,501</u> | <u>\$(3,853)</u> |

Please refer to Note 12 for more details on credit risk.

The credit risk for the Group's financial assets measured at amortized cost are assessed as low as of December 31, 2021 and 2020 (The same as the assessment result of January 1, 2020). Since the transaction counterparties of the Group are all financial institutions such as banks with good credit, all of them are calculated based on the expected credit loss rate of 0% and the allowance loss amount is \$0.

The Group measures the loss allowance of its trade receivables (including accounts receivable) at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as of December 31, 2021 and 2020 are as follows:

The Group considers the grouping of Trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follows:

As of December 31, 2021

| | Not yet due | Overdue | | | | | Total |
|---------------------------------|--------------------|------------------|-----------------|----------------|-----------------|-----------------|--------------------|
| | | Under 30 days | 31~60 days | 61~90 days | 91~120 days | Over 121 days | |
| Gross carrying amount | \$1,642,482 | \$117,995 | \$53,842 | \$7,319 | \$14,686 | \$84,628 | \$1,920,952 |
| Loss ratio | 1.25% | 2.07% | 0.46% | 0.00% | 1.44% | 1.88% | |
| Lifetime expected credit losses | 20,587 | 2,437 | 247 | - | 212 | 1,588 | 25,071 |
| Net carrying amount | <u>\$1,621,895</u> | <u>\$115,558</u> | <u>\$53,595</u> | <u>\$7,319</u> | <u>\$14,474</u> | <u>\$83,040</u> | <u>\$1,895,881</u> |

As of December 31, 2020

| | Not yet due | Overdue | | | | | Total |
|---------------------------------|-------------|---------------|------------|------------|-------------|---------------|-------------|
| | | Under 30 days | 31~60 days | 61~90 days | 91~120 days | Over 121 days | |
| Gross carrying amount | \$1,416,483 | \$110,151 | \$101,276 | \$31,514 | \$9,624 | \$2,081 | \$1,671,129 |
| Loss ratio | 1.32% | 1.33% | 0.00% | 0.00% | 2.55% | 77.68% | |
| Lifetime expected credit losses | 18,630 | 1,468 | 2 | 1 | 245 | 1,617 | 21,963 |
| Net carrying amount | \$1,397,853 | \$108,683 | \$101,274 | \$31,513 | \$9,379 | \$464 | \$1,649,166 |

The movement in the provision for impairment of trade receivables during the years ended December 31, 2021 and 2020 is as follows:

| | Accounts receivables |
|--|----------------------|
| As of January 1, 2021 | \$21,963 |
| Addition/(reversal) for the current period | 3,501 |
| Write off | (2) |
| Effect of exchange rate | (391) |
| As of December 31, 2021 | <u>\$25,071</u> |
| As of January 1, 2020 | \$26,584 |
| Addition/(reversal) for the current period | (3,853) |
| Effect of exchange rate | (768) |
| As of December 31, 2020 | <u>\$21,963</u> |

(12) Leases

Group as a lessee

The Group leases various properties, including real estate such as land and buildings, and parking space. The lease terms range from 1 to 5 years. The Group is not subject to any special restrictions.

The Group's leases effect on the financial position, financial performance and cash flows are as follows:

A. Amounts recognized in the balance sheet

(a) Right-of-use assets

The carrying amount of right-of-use assets

| | As of December 31, | |
|-----------|--------------------|----------|
| | 2021 | 2020 |
| Buildings | \$90,600 | \$78,416 |

During the years ended December 31, 2021 and 2020, the Group's additions to right-of-use assets amounting to \$44,553 thousand and \$56,831 thousand, respectively.

(b) Lease liabilities

| | As of December 31, | |
|-------------------|--------------------|----------|
| | 2021 | 2020 |
| Lease liabilities | \$91,022 | \$78,939 |
| Current | \$42,713 | \$38,123 |
| Non-current | \$48,309 | \$40,816 |

Please refer to Note 6(14) D. for the interest on lease liabilities recognized during the years ended December 31, 2021 and 2020 and refer to Note 12(5) Liquidity Risk Management for the maturity analysis for lease liabilities.

B. Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

| | For the years ended December 31, | |
|-----------|-------------------------------------|----------|
| | 2021 | 2020 |
| Buildings | \$41,783 | \$34,920 |

C. Income and costs relating to leasing activities

| | For the years ended December 31, | |
|---|-------------------------------------|----------|
| | 2021 | 2020 |
| The expenses relating to variable lease payments not included in the measurement of lease liabilities | \$15,478 | \$11,362 |

D. Cash outflow relating to leasing activities

During the years ended December 31, 2021 and 2020, the Group's total cash outflows for leases amounting to \$58,164 thousand and \$47,112 thousand, respectively.

(13) Summary statement of employee benefits, depreciation and amortization expenses by function:

| | For the years ended December 31, | | | | | |
|---------------------------------|----------------------------------|--------------------|-------------|-----------------|--------------------|-------------|
| | 2021 | | | 2020 | | |
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits expense | | | | | | |
| Salaries | \$- | \$1,402,022 | \$1,402,022 | \$- | \$1,091,553 | \$1,091,553 |
| Labor and health insurance | - | 71,200 | 71,200 | - | 56,151 | 56,151 |
| Pension | - | 34,063 | 34,063 | - | 29,422 | 29,422 |
| Other employee benefits expense | - | 48,192 | 48,192 | - | 45,559 | 45,559 |
| Depreciation expense | 8,846 | 75,216 | 84,062 | 9,574 | 63,291 | 72,865 |
| Amortization expense | - | 7,710 | 7,710 | 19 | 5,157 | 5,176 |

According to the Articles of Incorporation, 5% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the Company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a board meeting attended by two-thirds of the total number of directors, have the profit distributed as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. If the Board of Directors subsequently modifies the estimates significantly, the Company will recognize the change as an adjustment in the profit or loss in the subsequent period. Estimated employee remuneration and directors' remuneration are recognized as expenses in the current year. If there is a significant change in the amount determined by the board meeting resolution in the following year, it will be treated according to the changes in accounting estimates and the profit and loss of the following year will be adjusted. Information on the board meeting resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of the year ended December 31, 2021, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2021 to be 7.610% of profit of the current year and 0.761% of profit of the current year, respectively, recognized as employee benefits expense. As such, employees' compensation and remuneration to directors for the year ended December 31, 2021 amounted to \$237,954 thousand and \$23,795 thousand, respectively and recognized as salaries expense. A resolution was passed at the board meeting held on February 23, 2022 to distribute \$237,954 thousand and \$23,795 thousand in cash as employees' compensation and remuneration to directors of 2021, respectively.

A resolution was passed at the board meeting held on February 24, 2021 to distribute \$129,435 thousand and \$12,944 thousand in cash as employees' compensation and remuneration to directors of 2020, respectively. No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2020.

A resolution was passed at the board meeting held on March 12, 2020 to distribute \$49,731 thousand and \$4,973 thousand in cash as employees' compensation and remuneration to directors of 2019, respectively. No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2019.

(14) Non-operating income and expenses

A. Interest income

| | For the years ended December 31, | |
|---|-------------------------------------|----------|
| | 2021 | 2020 |
| Interest income | | |
| Financial assets measured at amortized cost | \$12,880 | \$20,229 |

B. Other income

| | For the years ended December 31, | |
|-----------------------|-------------------------------------|----------|
| | 2021 | 2020 |
| Other income - others | \$43,858 | \$52,983 |

C. Other gains and losses

| | For the years ended December 31, | |
|--|-------------------------------------|------------|
| | 2021 | 2020 |
| Gains on disposal of property, plant and equipment | \$20 | \$- |
| Foreign exchange losses, net | (49,039) | (69,177) |
| Other losses - others | (5,144) | (5,432) |
| Total | \$(54,163) | \$(74,609) |

D. Finance costs

| | For the years ended December 31, | |
|-------------------------------|-------------------------------------|-------|
| | 2021 | 2020 |
| Interest on lease liabilities | \$802 | \$896 |

(15) Components of other comprehensive income

For the year ended December 31, 2021

| | Arising during the period | Reclassification adjustments during the period | Other comprehensive income, before tax | Income tax relating to components of other comprehensive income | Other comprehensive income, net of tax |
|--|------------------------------|---|---|--|---|
| Items that will not be reclassified subsequently to profit or loss: | | | | | |
| Losses on remeasurements of defined benefit plans | \$(3,287) | \$- | \$(3,287) | \$657 | \$(2,630) |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Exchange differences on translation of foreign financial statements | (109,101) | - | (109,101) | - | (109,101) |
| Total | <u>\$(112,388)</u> | <u>\$-</u> | <u>\$(112,388)</u> | <u>\$657</u> | <u>\$(111,731)</u> |

For the year ended December 31, 2020

| | Arising during the period | Reclassification adjustments during the period | Other comprehensive income, before tax | Income tax relating to components of other comprehensive income | Other comprehensive income, net of tax |
|--|------------------------------|---|---|--|---|
| Items that will not be reclassified subsequently to profit or loss: | | | | | |
| Losses on remeasurements of defined benefit plans | \$(7,364) | \$- | \$(7,364) | \$1,473 | \$(5,891) |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Exchange differences on translation of foreign financial statements | (193,321) | - | (193,321) | - | (193,321) |
| Total | <u>\$(200,685)</u> | <u>\$-</u> | <u>\$(200,685)</u> | <u>\$1,473</u> | <u>\$(199,212)</u> |

(16) Income tax

The major components of income tax expense for the years ended December 31, 2021 and 2020 are as follows:

Income tax expense (income) recognized in profit or loss

| | For the years ended December 31, | |
|---|-------------------------------------|------------------|
| | 2021 | 2020 |
| Current income tax expense: | | |
| Current income tax charge | \$602,552 | \$366,514 |
| Adjustments in respect of current income tax of prior periods | (6,037) | (10,617) |
| Deferred tax expense (income): | | |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | 3,704 | (29,021) |
| Deferred tax (income) expense relating to origination and reversal of tax loss and tax credit | (963) | 17,180 |
| Exchange differences | 772 | 3,144 |
| Total income tax expense | <u>\$600,028</u> | <u>\$347,200</u> |

Income tax relating to components of other comprehensive income

| | For the years ended December 31, | |
|---|-------------------------------------|------------------|
| | 2021 | 2020 |
| Deferred tax expense (income): | | |
| Profit or losses of defined benefits plan | <u>\$(657)</u> | <u>\$(1,473)</u> |
| Income tax relating to components of other comprehensive income | <u>\$(657)</u> | <u>\$(1,473)</u> |

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

| | For the years ended December 31, | |
|--|-------------------------------------|--------------------|
| | 2021 | 2020 |
| Accounting profit before tax from continuing operations | <u>\$3,059,966</u> | <u>\$1,855,783</u> |
| Tax at the domestic rates applicable to profits in the country concerned | \$694,929 | \$487,075 |
| Tax effect of revenues exempt from taxation | (65,799) | (82,338) |
| Tax effect of expenses not deductible for tax purposes | 2 | - |
| Tax effect of deferred tax assets/liabilities | - | (26,946) |
| Income tax impact of research and development deduction | (26,746) | (23,581) |
| Corporate income surtax on undistributed retained earnings | 3,128 | 3,381 |
| Adjustments in respect of current income tax of prior periods | (6,037) | (10,918) |
| Others | 551 | 527 |
| Total income tax expense recognized in profit or loss | <u>\$600,028</u> | <u>\$347,200</u> |

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2021

| | Beginning balance | Recognized in profit or loss | Recognized in other comprehensive income | Exchange differences | Ending balance |
|---|----------------------|---------------------------------|---|-------------------------|-------------------|
| Temporary differences | | | | | |
| Unrealized gains (losses) on foreign exchange | \$(1,730) | \$2,679 | \$- | \$(1) | \$948 |
| Unrealized intragroup profits and losses | 36,026 | (9,630) | - | - | 26,396 |
| Inventory valuation and obsolescence loss | 48,026 | 3,502 | - | (128) | 51,400 |
| Net defined benefit liabilities-non current | 7,571 | 178 | 657 | - | 8,406 |
| Other payables (non-leave bonus, etc.) | 2,582 | 1,040 | - | (61) | 3,561 |
| Bad debt losses | 1,189 | (249) | - | (31) | 909 |
| Other | 1,967 | (1,224) | - | (40) | 703 |
| Unused taxable loss | 1,996 | 963 | - | (61) | 2,898 |
| Deferred tax income/(expense) | | \$(2,741) | \$657 | \$(322) | |
| Net deferred tax assets/(liabilities) | \$97,627 | | | | \$95,221 |
| Reflected in balance sheet as follows: | | | | | |
| Deferred tax assets | \$99,849 | | | | \$96,390 |
| Deferred tax liabilities | \$(2,222) | | | | \$(1,169) |

For the year ended December 31, 2020

| | Beginning balance | Recognized in profit or loss | Recognized in other comprehensive income | Exchange differences | Ending balance |
|---|----------------------|---------------------------------|---|-------------------------|-------------------|
| Temporary differences | | | | | |
| Unrealized gains (losses) on foreign exchange | \$(1,469) | \$ (261) | \$- | \$- | \$(1,730) |
| Unrealized intragroup profits and losses | 19,983 | 16,043 | - | - | 36,026 |
| Inventory valuation and obsolescence loss | 33,464 | 14,772 | - | (210) | 48,026 |
| Net defined benefit liabilities-non current | 5,916 | 182 | 1,473 | - | 7,571 |
| Other payables (non-leave bonus, etc.) | 4,129 | (1,440) | - | (107) | 2,582 |
| Bad debt losses | 2,504 | (1,238) | - | (77) | 1,189 |
| Other | 1,086 | 964 | - | (83) | 1,967 |
| Unused taxable loss | 19,271 | (17,181) | - | (94) | 1,996 |
| Deferred tax income/(expense) | | \$11,841 | \$1,473 | \$(571) | |
| Net deferred tax assets/(liabilities) | \$84,884 | | | | \$97,627 |
| Reflected in balance sheet as follows: | | | | | |
| Deferred tax assets | \$88,974 | | | | \$99,849 |
| Deferred tax liabilities | \$(4,090) | | | | \$(2,222) |

The following table contains information of the unused tax losses of the Group:

Unused taxable losses of overseas subsidiaries

(Expressed in US Dollars)

| Year | Tax losses for the period | Unused tax losses as of December 31, | | Expiration year |
|-------|---------------------------|--------------------------------------|-----------|-----------------|
| | | 2021 | 2020 | |
| 2016 | \$230,001 | \$132,491 | \$132,491 | 2036 |
| 2017 | 73,164 | 73,164 | 73,164 | 2037 |
| 2019 | 88,520 | 88,520 | 88,520 | 2039 |
| 2020 | 173,814 | 173,814 | 173,814 | 2040 |
| 2021 | 92,869 | 92,869 | - | 2041 |
| Total | | \$560,858 | \$467,989 | |

Unrecognized deferred tax assets

As of December 31, 2021 and 2020, deferred tax assets have not been recognized in respect of unused tax losses, unused tax credits and deductible temporary differences amounting to \$32,780 thousand and \$32,867 thousand, respectively, as the future taxable profit may not be available.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's overseas subsidiaries, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2021 and 2020, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liabilities have not been recognized, aggregate to \$2,970,228 thousand and \$2,862,904 thousand, respectively.

The assessment of income tax returns

As of December 31, 2021, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

| | The assessment of income tax returns | Notes |
|--|---|--|
| The Company | Assessed and approved up to 2019 | None |
| Subsidiary – ASIAROCK TECHNOLOGY LIMITED | None | Exempt from income tax accordance with local regulations |
| Subsidiary – LEADER INSIGHT HOLDINGDS LIMITED | None | Exempt from income tax accordance with local regulations |
| Subsidiary – ASROCK RACK INCORPORATION | Assessed and approved up to 2019 | None |
| Subsidiary – ASRock Industrial Computer Corporation | Assessed and approved up to 2019 | None |
| Subsidiary – SOARING ASIA LIMITED | None | Exemption from income tax accordance with local regulations |
| Sub-subsidiary – ASRock Europe B.V. | Assessed and approved up to 2020 | None |
| Sub-subsidiary – CALROCK HOLDINGS, LLC | Assessed and approved up to 2020 | None |
| Sub-subsidiary – FIRSTPLACE INTERNATIONAL LIMITED | None | Exempt from income tax accordance with local regulations |
| Great-subsidiary – ASRock America, Inc. | Assessed and approved up to 2020 | None |

(17) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

| | For the years ended December 31, | |
|---|-------------------------------------|-------------|
| | 2021 | 2020 |
| A. Basic earnings per share | | |
| Profit attributable to ordinary equity holders of the Company (in thousand \$) | \$2,381,060 | \$1,363,092 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | 121,049 | 120,642 |
| Basic earnings per share (\$) | \$19.67 | \$11.30 |

| | For the years ended | |
|--|---------------------|-------------|
| | December 31, | |
| | 2021 | 2020 |
| B. Diluted earnings per share | | |
| Profit attributable to ordinary equity holders of the Company (in thousand \$) | \$2,381,060 | \$1,363,092 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | 121,049 | 120,642 |
| Effect of dilution: | | |
| Employee compensation — stock (in thousands) | 846 | 830 |
| Weighted average number of ordinary shares outstanding after dilution (in thousands) | 121,895 | 121,472 |
| Diluted earnings per share (\$) | \$19.53 | \$11.22 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

(18) Changes in parent's interest in subsidiaries

Acquisition of new shares in a subsidiary not in proportionate to ownership interest

ASRock Industrial Computer Corporation issued new shares on July 31, 2020 and June 11, 2021, however the Company did not purchase any of the new shares, consequently the ownership interest in ASRock Industrial Computer Corporation was reduced to 66.28% and 65.83%, respectively. The related interest in ASRock Industrial Computer Corporation reduced, including changes in non-controlling interests, is as follows:

| | As of | |
|--|----------------|----------------|
| | July. 31, 2020 | June. 11, 2021 |
| Additional cash received from the issuance of new shares | \$- | \$- |
| Increase (decrease) to non-controlling interests | (1,384) | (6,644) |
| Difference recognized in capital surplus within equity | \$(1,384) | \$(6,644) |

ASROCK RACK INCORPORATION issued new shares on July 14, 2021, however the Company did not purchase any of new shares, consequently its ownership interest in ASROCK RACK INCORPORATION was reduced to 59.66%. The related interest in ASROCK RACK INCORPORATION reduced, including changes in non-controlling interest, is as follows:

| | As of |
|--|----------------|
| | July. 14, 2021 |
| Additional cash received from the issuance of new shares | \$- |
| Increase (decrease) to non-controlling interests | 1,461 |
| Difference recognized in capital surplus within equity | \$1,461 |

Buying back treasury shares by the subsidiary

ASROCK RACK INCORPORATION recovered 191 thousand shares of treasury shares from non-controlling interests and cancelled them on April 22, 2021. As a result, the Company's ownership of ASROCK RACK INCORPORATION increased to 62.43%. The additional equity interest acquired including changes in non-controlling equity is as follows:

| | As of |
|---|----------------------|
| | <u>Apr. 22, 2021</u> |
| Cash consideration paid to non-controlling shareholders | \$- |
| Increase (decrease) to non-controlling interests | <u>2,383</u> |
| Difference recognized in capital surplus within equity | <u>\$2,383</u> |

Acquisition of additional interest in a subsidiary

On March 25, and April 15, 2020, the Company acquired additional 2 thousand and 9 thousand voting shares of ASROCK RACK INCORPORATION, increasing its ownership to 62.03% and 62.05%, respectively. A cash consideration of \$40 thousand and \$172 thousand, respectively, was paid to the non-controlling interest shareholders. The following is a schedule of additional interest acquired in ASROCK RACK INCORPORATION including changes in non-controlling interests and adjustments to accumulated other comprehensive income:

| | As of | |
|--|----------------------|----------------------|
| | <u>Mar. 25, 2020</u> | <u>Apr. 15, 2020</u> |
| Additional cash received from the issuance of new shares | \$(40) | \$(172) |
| Increase (decrease) to non-controlling interests | <u>20</u> | <u>91</u> |
| Difference recognized in capital surplus within equity | (20) | (54) |
| Difference recognized in retained earning within equity | - | (27) |
| Total | <u>\$(20)</u> | <u>\$(81)</u> |

On January 13, March 23, May 7, September 30, December 7 and December 21, 2020, the Group acquired additional 30 thousand, 20 thousand, 21 thousand, 105 thousand, 103 thousand and 36 thousand voting shares of ASRock Industrial Computer Corporation, increasing its ownership to 67.46%, 67.52%, 67.58%, 66.58%, 66.86% and 66.96% respectively. A cash consideration of \$300 thousand, \$246 thousand, \$266 thousand, \$1,295 thousand, \$1,302 thousand and \$452 thousand, respectively, was paid to the non-controlling interest shareholders. The following is a schedule of additional interest acquired in ASRock Industrial Computer Corporation including changes in non-controlling interests and adjustments to accumulated other comprehensive income:

| | As of | | |
|--|---------------|---------------|--------------|
| | Jan. 13, 2020 | Mar. 23, 2020 | May. 7, 2020 |
| Additional cash received from the issuance of new shares | \$ (300) | \$ (246) | \$ (266) |
| Increase (decrease) to non-controlling interests | 369 | 251 | 269 |
| Difference recognized in capital surplus within equity | \$ 69 | \$ 5 | \$ 3 |

| | As of | | |
|--|---------------|--------------|---------------|
| | Sep. 30, 2020 | Dec. 7, 2020 | Dec. 21, 2020 |
| Additional cash received from the issuance of new shares | \$ (1,295) | \$ (1,302) | \$ (452) |
| Increase (decrease) to non-controlling interests | 1,419 | 1,457 | 505 |
| Difference recognized in capital surplus within equity | \$ 124 | \$ 155 | \$ 53 |

Subsidiary issued stock dividend

ASROCK RACK INCORPORATION issued stock dividends on August 24, 2021, increasing the Company's ownership to 59.67%. The additional equity interest acquired including changes in non-controlling equity is as follows:

| | As of |
|--|---------------|
| | Aug. 24, 2021 |
| Additional cash received from the issuance of new shares | \$- |
| Increase (decrease) to non-controlling interests | 67 |
| Difference recognized in capital surplus within equity | \$67 |

7. Related party transactions

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name and nature of relationship of the related parties

| Name of the related parties | Nature of relationship of the related parties |
|--------------------------------------|---|
| PEGATRON Corporation | Parent company of the group |
| AS FLY TRAVEL SERVICE CO., | Substantive related party |
| Cotek Electronics (Suzhou) Co., Ltd. | Substantive related party |
| Piotek Computer (Suzhou) Corporation | Substantive related party |

Significant transactions with the related parties

(a) Sales

| | For the years ended December 31, | |
|-----------------------|-------------------------------------|-----------------|
| | 2021 | 2020 |
| Parent company | \$31,688 | \$65,958 |
| Other related parties | 314 | 880 |
| Total | <u>\$32,002</u> | <u>\$66,838</u> |

The sales price to the above related parties was determined through mutual agreement based on the market rates. The collection period for related parties sales was O/A 90 days. The collection period for non-related parties sales were TT or 30~90 days from FOB shipping point. The outstanding balance at December 31, 2021 and 2020 was unsecured, non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed. In addition, the amount of sales to related parties for the years ended December 31, 2021 and 2020, has eliminated amounts paid for outsourcing. The elimination amounted to \$76,519 thousand and \$68,346 thousand, respectively.

(b) Purchases

| | For the years ended December 31, | |
|-----------------------|-------------------------------------|----------------|
| | 2021 | 2020 |
| Parent company | \$30,972 | \$351 |
| Other related parties | 60,808 | 4,903 |
| Total | <u>\$91,780</u> | <u>\$5,254</u> |

The purchase price to the above related parties was determined through mutual agreement based on the market rates. The payment terms from the related party suppliers are comparable with third party suppliers and are between 30~90 days. In addition, the amount of purchases to related parties for the years ended December 31, 2021 and 2020, has eliminated amounts paid for outsourcing. The elimination amounted to \$120,534 thousand and \$226,608 thousand, respectively.

(c) Accounts receivable - related parties

| | As of December 31, | |
|----------------------------------|--------------------|-----------------|
| | 2021 | 2020 |
| Parent company | | |
| PEGATRON Corporation | \$37,642 | \$16,044 |
| Other related parties | - | 585 |
| Deducted: Allowance for bad debt | - | - |
| Net balance | <u>\$37,642</u> | <u>\$16,629</u> |

(d) Prepayments (accounted for under “Other current assets”)

| | As of December 31, | |
|----------------|--------------------|---------|
| | 2021 | 2020 |
| Parent company | \$1,520 | \$2,149 |

(e) Other receivable (accounted for under “Other current assets”)

| | As of December 31, | |
|----------------|--------------------|------|
| | 2021 | 2020 |
| Parent company | \$211 | \$- |

(f) Accounts payable – related parties

| | As of December 31, | |
|-----------------------|--------------------|----------|
| | 2021 | 2020 |
| Parent company | | |
| PEGATRON Corporation | \$43,141 | \$30,196 |
| Other related parties | 24,096 | 4,251 |
| Total | \$67,237 | \$34,447 |

(g) Other payables

| | As of December 31, | |
|----------------|--------------------|----------|
| | 2021 | 2020 |
| Parent company | \$120,196 | \$58,280 |

(h) Other current liabilities

| | As of December 31, | |
|----------------|--------------------|------|
| | 2021 | 2020 |
| Parent company | \$61 | \$66 |

(i) Operating costs and expenses

| | For the years ended December 31, | |
|-----------------------|-------------------------------------|-----------|
| | 2021 | 2020 |
| Parent company | \$212,145 | \$231,864 |
| Other related parties | 6 | 2,819 |
| Total | \$212,151 | \$234,683 |

(j) Property transaction

Acquisition of intangible assets

| | Asset Name | For the years ended December 31, | |
|----------------|-------------------|-------------------------------------|---------|
| | | 2021 | 2020 |
| Parent company | Computer software | \$2,831 | \$2,831 |

The price for the purchase of computer software by the Group from the parent company is negotiated by both parties with reference to market conditions.

(k) Key management personnel compensation

| | For the years ended December 31, | |
|------------------------------|-------------------------------------|----------|
| | 2021 | 2020 |
| Short-term employee benefits | \$109,338 | \$63,662 |
| Post-employment benefits | 676 | 620 |
| Share-based payment | 6,775 | 3,913 |
| Total | \$116,789 | \$68,195 |

8. Assets pledged as security

The following table lists assets of the Group pledged as security:

| Items | Carrying amount As of December 31, | | Secured liabilities |
|---|---------------------------------------|-------|------------------------------|
| | 2021 | 2020 | |
| Financial assets measured at amortized cost- non current | \$2,389 | \$402 | Tariffs and lease guarantees |

9. Significant contingencies and unrecognized contractual commitments

(1) Reversible Connections Inc. ("Reversible") filed a patent infringement lawsuit against ASRock America, Inc., a subsidiary of the company, in 2017, claiming that ASRock America, Inc. infringed its '825 patent on several products sold in the United States. The company denied these allegations and defended the case strongly. A lawyer has been appointed to cooperate with the court in the trial. The company's operations, finances, and business remained normal and were not affected by the case.

(2) As of December 31, 2021, the company and its subsidiaries recorded customs duties of \$11,300 thousand.

10. Losses due to major disasters

None.

11. Significant subsequent events

None.

12. Financial instruments

(1) Categories of financial instruments

Financial assets

| | As of December 31, | |
|--|--------------------|--------------------|
| | 2021 | 2020 |
| Financial assets measured at amortized cost: | | |
| Cash and cash equivalents (exclude cash on hand) | \$2,212,729 | \$2,761,785 |
| Financial assets measured at amortized cost | 1,278,744 | 819,961 |
| Trade receivables | 1,895,881 | 1,649,166 |
| Other receivables | 44,207 | 52,035 |
| Total | <u>\$5,431,561</u> | <u>\$5,282,947</u> |

Financial liabilities

| | As of December 31, | |
|---|--------------------|--------------------|
| | 2021 | 2020 |
| Financial liabilities measured at amortized cost: | | |
| Accounts payables | \$4,456,838 | \$2,729,590 |
| Lease liabilities | 91,022 | 78,939 |
| Other payables | 1,419,344 | 1,073,475 |
| Total | <u>\$5,967,204</u> | <u>\$3,882,004</u> |

(2) Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk.

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency USD. The information of the sensitivity analysis is as follows:

When NTD strengthens/weakens against foreign currency USD by 1%, the profit for the years ended December 31, 2021 and 2020 is decreased/increased by \$(16,302) thousand and \$11,113 thousand, respectively, the equity is decreased/increased by \$38,186 thousand and \$37,520 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash in banks and time deposit at variable interest rates.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period. At the reporting date, a change of 25 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2021 and 2020 to increase /decrease by \$6,559 thousand and \$3,876 thousand, respectively.

(4) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss.

The Group is exposed to credit risk from operating activities (primarily for accounts and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain counter parties' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

As of December 31, 2021 and 2020, amounts receivables from top ten customers represent 45.04% and 44.84% of the total trade receivables of the Group, respectively. The credit concentration risk of other trade receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating. Consequently, there is no significant credit risk for these counter parties.

The Group adopted IFRS 9 to assess the expected credit losses. The Group measures the loss allowance of its trade receivables at an amount equal to lifetime expected credit losses, low credit risk for these investments is a prerequisite upon acquisition and by using their credit risk as a basis for the distinction of categories.

Financial assets are written off when there is no realistic prospect of future recovery. (the issuer or the debtor is in financial difficulties or bankruptcy)

When the credit risk on debt instrument investment has increased, the Group will dispose that investment in order to minimize the credit losses. When assessing the expected credit losses, the evaluation of the forward-looking information (available without undue cost and effort) is mainly based on the macroeconomic information and the credit loss ratio is further adjusted if there is significant impact from forward-looking information.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, bank borrowings and finance leases. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity.

Non-derivative financial liabilities

| | Less than 1 year | 2 to 3 years | 4 to 5 years | > 5 years | Total |
|-------------------------|---------------------|--------------|--------------|-----------|-------------|
| As of December 31, 2021 | | | | | |
| Accounts payables | \$4,456,838 | \$- | \$- | \$- | \$4,456,838 |
| Lease liabilities | 43,276 | 32,890 | 15,991 | - | 92,157 |
| Other payables | 1,419,344 | - | - | - | 1,419,344 |
| As of December 31, 2020 | | | | | |
| Accounts payables | \$2,729,590 | \$- | \$- | \$- | \$2,729,590 |
| Lease liabilities | 38,835 | 31,176 | 7,327 | 2,832 | 80,170 |
| Other payables | 1,073,475 | - | - | - | 1,073,475 |

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2021:

| | Lease liabilities | Total liabilities from financing activities |
|---------------------------|-------------------|--|
| As of January 1, 2021 | \$78,939 | \$78,939 |
| Cash flows | (42,686) | (42,686) |
| Non-cash change | 54,871 | 54,871 |
| Foreign exchange movement | (102) | (102) |
| As of December 31, 2021 | \$91,022 | \$91,022 |

Reconciliation of liabilities for the year ended December 31, 2020:

| | Lease liabilities | Total liabilities from financing activities |
|-------------------------|-------------------|--|
| As of January 1, 2020 | \$57,173 | \$57,173 |
| Cash flows | (35,750) | (35,750) |
| Non-cash change | 57,727 | 57,727 |
| Non-cash change | (211) | (211) |
| As of December 31, 2020 | \$78,939 | \$78,939 |

(7) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- (a) The carrying amount of cash and cash equivalents, trade receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

B. Fair value of financial instruments measured at amortized cost

The carrying amount of the Group's financial assets and liabilities measured at amortized cost approximate their fair value.

(8) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

| | As of December 31, 2021 | | |
|------------------------------|--------------------------------------|--------------------------|--------------------|
| | Foreign currencies (thousands) | Foreign exchange rate | NTD (thousands) |
| <u>Financial assets</u> | | | |
| Monetary items: | | | |
| USD | \$119,573 | 27.6830 | \$3,310,139 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 178,460 | 27.6830 | 4,940,308 |

| | As of December 31, 2020 | | |
|------------------------------|--------------------------------------|--------------------------|--------------------|
| | Foreign currencies (thousands) | Foreign exchange rate | NTD (thousands) |
| <u>Financial assets</u> | | | |
| Monetary items: | | | |
| USD | \$150,597 | 28.4965 | \$4,291,488 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 111,598 | 28.4965 | 3,180,144 |

Since there were various functional currencies used within the subsidiaries of the Group, the Group was unable to disclose foreign exchange (losses) gains towards each foreign currency with significant impact. The realized and unrealized foreign exchange losses was \$(49,039) thousand and \$(69,177) thousand for the years ended December 31, 2021 and 2020, respectively.

(9) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. Other disclosure

(1) Information at significant transactions

A. Financing provided to others: None.

B. Endorsement/Guarantee provided to others: Please refer to Attachment 1.

C. Securities held at the end of the period: None.

D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of \$300 million or 20 percent of the capital stock: None.

- E. Acquisition of individual real estate with amount exceeding the lower of \$300 million or 20 percent of the capital stock: None.
- F. Disposal of individual real estate with amount exceeding the lower of \$300 million or 20 percent of the capital stock: None.
- G. Related party transactions for purchases and sales amounts exceeding the lower of \$100 million or 20 percent of the capital stock: Please refer to Attachment 2.
- H. Receivables from related parties with amounts exceeding the lower of \$100 million or 20 percent of capital stock: Please refer to Attachment 3.
- I. Financial instruments and derivative transactions: None.
- J. Others - Business relationship between the parent and the subsidiaries and between each subsidiary, and the circumstances and accounts of any significant transactions between term: Please refer to Attachment 4.

(2) Information on investees

Of the investee company directly or indirectly has significant influence or control over, their investee companies' information: Please refer to Attachment 5.

(3) Investment in Mainland China:

None.

(4) Information of major shareholder:

| Shares | | |
|------------------------------|--------------------------------|------------------------|
| Name of major shareholder | Number of shares held (shares) | Shareholding ratio (%) |
| ASUS INVESTMENT CO., LTD. | 57,217,754 | 46.54% |
| ASUSTEK INVESTMENT CO., LTD. | 7,453,405 | 6.06% |
| HONG HUNG INVESTMENT LIMITED | 6,526,897 | 5.30% |

14. Segment information

- (1) The main business of the Group is to research and development, design and sales of products such as motherboards. The main operating decision makers monitors the overall operation results of the group to formulate decisions on resources allocation and performance evaluate the overall performance, so the group is a single operating unit.

(2) Geographical information

| | For the years ended December 31, | |
|-------------------------------------|-------------------------------------|---------------------|
| | 2021 | 2020 |
| A. Revenue from external customers: | | |
| Asia | \$7,004,799 | \$4,971,299 |
| Europe | 5,384,483 | 4,707,446 |
| America | 7,093,066 | 8,062,856 |
| Others | 280,324 | 169,983 |
| Total | <u>\$19,762,672</u> | <u>\$17,911,584</u> |

Revenue is categorized based on the customer's country.

| | As of December 31, | |
|------------------------|--------------------|------------------|
| | 2021 | 2020 |
| B. Non-current assets: | | |
| Europe | \$108,866 | \$115,532 |
| Asia | 217,010 | 192,087 |
| America | 46,488 | 41,302 |
| Total | <u>\$372,364</u> | <u>\$348,921</u> |

(3) Information about major customers

The net sales revenue of a single customer for the years ended December 31, 2021 and 2020 both did not exceed 10% of the consolidated net income.

| | For the years ended December 31, | |
|----------|-------------------------------------|--------------------|
| | 2021 | 2020 |
| Client A | <u>\$-</u> | <u>\$2,163,682</u> |

ATTACHMENT 1 Endorsement/Guarantee provided to others

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(Unit : thousands of NTD)

| No (Note1) | Endorsements/Guarantees Provider | Guaranteed Party | | Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party (Note3) | Maximum Balance for the Period | Ending Balance | Amount Actually Drawn | Amounts of Endorsement/ Guarantee secured by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements | Maximum Endorsement/ Guarantee Amount Allowed(Note4) | Endorsement Provided by Parent Company to Subsidiaries | Endorsement Provided by Subsidiaries to parent company | Endorsement Provided to entities in China |
|---------------|----------------------------------|-----------------------------|--------------------------------------|--|--------------------------------------|-------------------|-----------------------------|---|--|---|--|---|--|
| | | Name | Nature of Relationship (Note2) | | | | | | | | | | |
| 0 | ASROCK INC. | ASIAROCK TECHNOLOGY LIMITED | (2) | \$5,789,798 | \$2,224,360 | \$2,214,640 | \$1,660,980 | - | 26.78% | \$5,789,798 | Y | N | N |

Note 1 : The numbers filled in for the endorsements/guarantees provided by the group or subsidiaries are as follows:

- (1) The Company is coded "0".
- (2) The subsidiaries are coded starting from "1" in the order.

Note 2 : The following code represents the relationship with the company:

- (1) A company with which it does business.
- (2) A company in which the public company directly and indirectly holds more than 50 percent of the voting shares.
- (3) A company that directly and indirectly holds more than 50 percent of the voting shares in the public company.
- (4) A company in which the public company holds, directly or indirectly, 90% or more of the voting shares.
- (5) A company that fulfills its contractual obligations by providing mutual endorsements/guarantees for another company company in the same industry or for joint builders for purposes of undertaking a construction project.
- (6) A company that all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
- (7) Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3 : The amount of endorsements/guarantees for any single entity 100% holding company of shall not exceed 70% of net worth of endorser/guarantor.

Note 4 : The amount of endorsements/guarantees collateralized by properties shall not exceed 70% of net worth of endorser/guarantor.

Note 5 : If the original currency amount in the above is foreign currency, it is converted into New Taiwan Dollars in December 31, 2021 financial report exchange rate, and the spot exchange rate of December 31, 2021 is USD/NTD 27.6830.

ATTACHMENT 2 Related Party Transactions for Purchases and Sales amounts exceeding the lower of \$100 million or 20 percent of the Capital Stock
(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(Unit : thousands of NTD)

| Purchases/Sales Company Name | Counter-Party | Relationship (Note4) | Transactions Details | | | | Details of Non-arm's Length Transactions(Note1) | | Notes and Accounts Receivable (Payable) | | Remark (Note2) |
|---|---|-------------------------|----------------------|---------------|--|---------|---|-----------------------|---|--|-------------------|
| | | | Purchases (Sales) | Amount | Percentage of Total Purchases(Sales) | Terms | Unit Price | Terms | Balance | Percentage of Total Receivable (Payable) | |
| ASROCK INC. | ASRock Europe B.V. | 1 | (Sales) | \$(3,896,085) | (26.80%) | 45 days | Same as other clients | Same as other clients | \$59,480 | 3.48% | |
| " | ASRock America, Inc | 1 | (Sales) | \$(3,731,808) | (25.67%) | 90 days | Same as other clients | Same as other clients | 767,816 | 44.94% | |
| ASIAROCK TECHNOLOGT LIMITED | ASROCK INC. | 2 | (Sales) | (10,345,855) | (73.30%) | 60 days | Same as other clients | Same as other clients | 543,189 | 61.29% | |
| " | ASROCK RACK INCORPORATION | 3 | (Sales) | (2,032,823) | (14.40%) | 60 days | Same as other clients | Same as other clients | 102,159 | 11.53% | |
| " | ASRock Industrial Computer Corporation | 3 | (Sales) | (337,206) | (2.39%) | 60 days | Same as other clients | Same as other clients | 99,914 | 11.27% | |
| ASROCK RACK INCORPORATION | ASRock Europe B.V. | 3 | (Sales) | (159,217) | (5.03%) | 60 days | Same as other clients | Same as other clients | 28,321 | 5.77% | |
| " | ASRock America, Inc | 3 | (Sales) | (352,551) | (11.14%) | 90 days | Same as other clients | Same as other clients | 121,325 | 24.73% | |
| ASRock Industrial Computer Corporation | ASRock Europe B.V. | 3 | (Sales) | (168,933) | (13.60%) | 60 days | Same as other clients | Same as other clients | 9,435 | 8.33% | |

Note 1: If the related party's transaction terms are different from the general transaction terms, the unit price and credit period column should state the difference and the reason.

Note 2: If there is any receipt (payment) in advance, the reason, contractual terms, amount, and differences from the general transaction type should be stated in the remarks column.

Note 3: The paid-in capital shall refer to the paid-in capital of the parent company. If securities issuers issued no-par value stocks or stocks with par value that are not TWD10 per share, the criteria shall be 10% of the amount attributable to parent company's equity.

Note 4: The following lists the three types of intercompany transactions (any transaction between parent company and subsidiary or between subsidiaries is disclosed as one transaction by either transaction counterparty.)

- (1) Transactions from parent company to subsidiary is "1".
- (2) Transactions from subsidiary to parent company is "2".
- (3) Transactions between subsidiaries is "3".

ATTACHMENT 3 Receivables from Related Parties with amounts exceeding the lower of \$100 million or 20 percent of Capital Stock

(Unit : thousands of NTD)

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| Company | Counter-party | Relationship (Note3) | Ending Balance(Note1) | Turnover | Overdue Receivables | | Amount Received in Subsequent Period | Allowance for Bad Debts |
|---------------------------------|---------------------------|-------------------------|--------------------------|----------|---------------------|------------|---|----------------------------|
| | | | | | Amount | Collection | | |
| ASROCK INC. | ASRock America, Inc. | 1 | \$767,816 | 3.38 | \$- | - | \$100,904 | - |
| ASIA ROCK TECHNOLOGY LIMITED | ASROCK INC. | 2 | 543,189 | 7.11 | - | - | 378,577 | - |
| " | ASROCK RACK INCORPORATION | 3 | 102,159 | 6.43 | - | - | 367 | - |
| ASROCK RACK INCORPORATION | ASRock America, Inc | 3 | 121,325 | 3.40 | - | - | - | - |

Note 1: Please fill in separately according to accounts receivable, bills, other receivables... etc.

Note 2: The paid-in capital shall refer to the paid-in capital of the parent company. If securities issuers issued no-par value stocks or stocks with par value that are not TWD10 per share, the criteria shall be 10% of the amount attributable to parent company's equity.

Note 3: The following lists the three types of intercompany transactions (any transaction between parent company and subsidiary or between subsidiaries is disclosed as one transaction by either transaction counterparty)

- (1) Transactions from parent company to subsidiary is "1".
- (2) Transactions from subsidiary to parent company is "2".
- (3) Transactions between subsidiaries is "3".

ATTACHMENT 4 Business Relationship between the Parent and the Subsidiaries and between each Subsidiary, and the circumstances and accounts of any significant transactions between term
(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(Unit : thousands of NTD)

| No. (Note1) | Company | Counter-Party | Relationship (Note2) | Transaction Details | | | |
|----------------|---|---|-------------------------|---------------------|-------------------|-----------------------|--|
| | | | | Account | Amount (Note4) | Terms | Percentage of consolidated total operating revenues or total assets(Note3) |
| 0 | ASROCK INC. | ASRock Europe B.V. | 1 | Sales | \$3,896,085 | Same as other clients | 19.71% |
| | | | | Accounts receivable | 59,480 | 45 days | 0.37% |
| " | " | ASRock America, Inc | 1 | Sales | 3,731,808 | Same as other clients | 18.88% |
| | | | | Accounts receivable | 767,816 | 90 days | 4.83% |
| 1 | ASIRAROCK TECHNOLOGY LIMITED | ASROCK INC. | 2 | Sales | 10,345,855 | Same as other clients | 52.35% |
| | | | | Accounts receivable | 543,189 | 60 days | 3.42% |
| " | " | ASROCK RACK INCORPORATION | 3 | Sales | 2,032,823 | Same as other clients | 10.29% |
| | | | | Accounts receivable | 102,159 | 60 days | 0.64% |
| " | " | ASRock Industrial Computer Corporation | 3 | Sales | 337,206 | Same as other clients | 1.71% |
| | | | | Accounts receivable | 99,914 | 60 days | 0.63% |
| 2 | ASROCK RACK INCORPORATION | ASRock Europe B.V. | 3 | Sales | 159,217 | Same as other clients | 0.81% |
| | | | | Accounts receivable | 28,321 | 60 days | 0.18% |
| " | " | ASRock America, Inc | 3 | Sales | 325,551 | Same as other clients | 1.78% |
| | | | | Accounts receivable | 121,325 | 90 days | 0.76% |
| 3 | ASRock Industrial Computer Corporation | ASRock Europe B.V. | 3 | Sales | 168,933 | Same as other clients | 0.85% |
| | | | | Accounts receivable | 9,435 | 60 days | 0.06% |

Note 1: The Company and its subsidiaries are coded as follows:

- 1.The Company is coded "0".
- 2.Subsidiaries are coded consecutively starting from "1" in the order presented in the table above.

Note 2: The following lists the three types of intercompany transactions (any transaction between parent company and subsidiary or between subsidiaries is disclosed as one transaction by either transaction counterparty.)

- (1) Transactions from parent company to subsidiary is "1".
- (2) Transactions from subsidiary to parent company is "2".
- (3) Transactions between subsidiaries is "3".

Note 3: The percentage is determined by the ratio of the transaction amount to the consolidated revenues or the total assets. Items on the balance sheet are calculated by the ending balance to total consolidated assets; items on the income statement are calculated by their midterm cumulative balance to the total consolidated income.

Note 4: The disclosure of significant intercompany transactions in this attachment is determined by the company based on the materiality.

| Investor company (Note 2(1)) | Investee company (Note 1,2(1)) | Location (Note 2(1)) | Main business item (Note 2(1)) | Initial Investment (Note 2(1)) | | Investment as of December 31, 2021 (Note 2(1)) | | | Investee company Net income(loss) of investee company(Note2(2)) | Net Investment income (loss) recognized(Note2(3)) | Remark |
|-------------------------------|--|------------------------|--|--------------------------------|-------------------|--|-------------------------|-------------------|--|--|--------|
| | | | | Ending balance | Beginning balance | Number of shares | Percentage of ownership | Book value | | | |
| ASROCK INC. | ASROCK RACK INCORPORATION | Taiwan | Manufacture and sale of computers and peripheral | \$291,278 | \$291,278 | 27,296,220 (Note4) | 59.67% (Note4) | \$418,174 | \$66,691 | \$40,001 | |
| " | ASIAROCK TECHNOLOGY LIMITED | British Virgin Islands | Investment holding | 1,320,886 | 1,320,886 | 40,000,000 | 100.00% | 3,599,438 (Note3) | 107,324 | 118,768 | |
| " | LEADER INSIGHT HOLDINGS LTD. | British Virgin Islands | Investment holding | 71,559 | 71,559 | 2,100,000 | 100.00% | 102,306 | 68,350 | 68,350 | |
| " | ASRock Industrial Computer Corporation | Taiwan | Manufacture and sale of computers and peripheral | 239,683 | 239,683 | 23,895,700 | 65.83% (Note5) | 399,697 | 156,396 | 103,708 | |
| " | ASJade Technology Inc. | Taiwan | Service of computer software | 103,125 | - | 8,250,000 | 78.57% | 101,294 | (2,331) | (1,831) | |
| " | SOARING ASIA LIMITED | Hong Kong | International trade | HKD 150,000 | HKD 150,000 | 150,000 | 100.00% | 533 | - | - | |
| | Total | | | | | | | | | \$328,996 | |
| ASIAROCK TECHNOLOGY LIMITED | ASRock Europe B.V. | Netherlands | Data storage and sales of electronic materials and international trade | USD 194,000 | USD 194,000 | 200,000 | 100.00% | USD 24,109,980 | USD 3,858,554 | USD 3,858,554 | |
| " | CALROCK HOLDINGS, LLC | USA | Rent office building | USD 2,000,000 | USD 2,000,000 | 2,000,000 | 100.00% | USD 2,153,327 | (USD 40,439) | (USD 40,439) | |
| " | Orbweb Inc. (BVI) | British Virgin Islands | Computer equipment installation and peripheral equipment wholesale and service | USD 1,000,000 | USD 1,000,000 | 4,000,000 | 27.59% | - | (USD 95,788) | - | |
| LEADER INSIGHT HOLDINGS LTD. | FIRSTPLACE INTERNATIONAL LTD. | British Virgin Islands | Investment holding | USD 2,050,000 | USD 2,050,000 | 2,050,000 | 100.00% | USD 3,694,081 | USD 2,441,303 | USD 2,441,303 | |
| FIRSTPLACE INTERNATIONAL LTD. | ASRock America, Inc. | USA | Data storage and sales of electronic materials and international trade | USD 2,000,000 | USD 2,000,000 | 2,000,000 | 100.00% | USD 3,660,536 | USD 2,441,292 | USD 2,441,292 | |

Note 1: If a public offering company has a foreign holding company and uses consolidation as the main financial statement in accordance with local laws and regulations, the disclosure of information about the foreign invested company may only disclose relevant information to the holding company.

Note 2: If it is not in the case described in Note 1, fill in according to the following regulations:

- (1) The "name of the investee company", "location", "main business item", "original investment amount" and "end-of-term shareholding situation" should be based on the company's reinvestment status and fill in the reinvestment situation of each invested company directly or indirectly controlled in order, and indicate the relationship between each invested company and the (public offering) company (if it is a subsidiary or a grandson company) in the remarks column.
- (2) In column B of "Invested Company Current Profit and Loss", the amount of current profit and loss of each invested company should be filled in.
- (3) In column B of "Investment Profits and Losses Recognized in the Current Period", only the amount of profit and loss of the subsidiaries recognized by the (public offering) company for direct reinvestment and each invested company evaluated by the equity method is required. When filling in the "recognition of the current profit and loss amount of each subsidiary for direct reinvestment", it should be confirmed that the current profit and loss amount of each subsidiary has included the investment profit and loss that should be recognized for its reinvestment in accordance with the regulations.

Note 3: Book value = net equity \$3,708,273 thousand + deferred credit \$(108,835) thousand.

Note 4: The employee stock option was offered by ASROCK RACK INCORPORATION on July 14, 2021. Because the Company did not subscribe the shares according to the shareholding ratio, the ownership interest in the company was reduced from 62.05% to 59.67%.

In addition, stock dividends were issued on August 24, 2021, which was resolved by the board of directors' meeting on August 18, 2021. The shares of the Company increased from 19,479,035 to 27,296,220.

Note 5: The employee stock option was offered by ASRock Industrial Computer Corporation on June 11, 2021. Because the Company did not subscribe the shares according to the shareholding ratio, the ownership interest in the company was reduced from 66.96% to 65.83%.