Stock Code:3704

Unizyx Holding Corporation and Subsidiaries

Consolidated Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017

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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of Unizyx Holding Corporation as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Unizyx Holding Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Unizyx Holding Corporation
Chairman: Shun-I Chu
Date: March 14, 2019

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Independent Auditors' Report

To the Board of Directors of Unizyx Holding Corporation:

Opinion

We have audited the consolidated financial statements of Unizyx Holding Corporation and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (" IFRSs"), International Accounting Standards (" IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee (" IFRIC") and the former Standing Interpretations Committee (" SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the 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 in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (" the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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.

1. Valuation of Accounts Receivable

   Please refer to Note 4(7) "Summary of significant accounting policies— Financial instruments" Note 5(1) " Major sources of accounting judgments, estimations and assumptions of uncertainty" , Note 6(6) " Explanation of significant accounts— Notes, accounts receivable and other receivables, net" of the consolidated financial statements, and Note 7(2) " Significant related-party transactions".

KPMG, a Taiwan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Description of key audit matters:

The Company has its customers spread throughout the globe, wherein they are vulnerable to various changes, such as environmental, economic as well as legal matters. Therefore, the customer credit control is considered to be more complex. When assessing the recoverability of its receivables, it is necessary to consider any changes in the credit quality of the receivables from the original grant date to the reporting date. For those receivables that have not been withdrawn within the credit term, the balance of the estimated valuation allowance for bad debts is calculated by reference from the transaction in the past and current financial status. The management has subjective and significant judgments on the balance of allowance for impairment loss from receivables that involves uncertainty and may have material impact on the valuation of receivables, which is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: Testing the completeness and accuracy of the aging analysis; testing the key control of the management for the credit limits and supervision process to assess the appropriateness of the sales when it goes over of the credit limits; understanding and evaluating the management' s consideration and the rate of lifetime expected credit losses relating to receivables that are overdue, vouching the receipt of cash after the year end and understanding the possibility of remaining receivables collection suggested by historical trends; testing the adequacy of the Company' s provisions against the receivables by assessing the relevant assumptions, requesting a litigation enquiry from appointed solicitors, examining and reviewing the litigation documents, discussing with the management the probability of collecting the remaining receivables from related parties, as well as recalculating and evaluating the adequacy of the Company's disclosures in its accounts.

2. Valuation of Inventories

Please refer to Note 4(8) "Summary of significant accounting policies－Inventories", Note 5(2) "Significant accounting judgments, assumptions, and major sources of estimation uncertainty" , and Note 6(7) "Explanation of Significant Accounts－Inventories" to the consolidated financial statements.

Description of key audit matters:

The Company mainly engages in the research and development, as well as the production of networks communication products. Inventories are stated at the lower of cost or net realizable value. The Company used judgment and estimate to determine the net realizable value of inventory at the end of each reporting period. However, the rapid evolution of technology and the fluctuation of market may lead to obsolete inventories and unmarketable items. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments. As a result, the valuation of inventories is one of the key audit matters of our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: Obtaining the inventory aging report and testing the completeness and the accuracy of the aging of inventory based on acceptable documents from the last valid transaction. Understanding and evaluating the management's judgment on the calculation of net realizable value, testing the relevant documents to assess the rationality for slow moving inventories, making an assessment of their adequacy and reasonableness for slow moving inventories and discussing with the management about the reasonableness for slow moving inventories; as well as understanding the management's assumption on the completeness of inventory provisions and evaluating the adequacy of provision to write down slow moving or obsolete inventories; and evaluating the adequacy of the Company's disclosures in the accounts.

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Other Matter

Unizyx Holding Corporation has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unqualified opinion.

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

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

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

Those charged with governance (including supervisors) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with 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 Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are An-Chih Cheng and Chih-Xing Chang.

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Taipei, Taiwan (Republic of China)
March 14, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial statements of financial position, financial performance and cash flows in accordance with the 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.

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

Assets	December 31, 2018 Amount	%	December 31, 2017 Amount	%
Current assets:				
Cash and cash equivalents (note 6(1))	$ 1,500,532	9	3,181,431	22
Financial assets at fair value through profit or loss－current (note 6(2))	1,854	-	4,587	-
Financial assets at amortized cost－current (note 6(3))	364,584	2	-	-
Notes and accounts receivable, net (note 6(6))	7,004,816	41	4,666,541	32
Accounts receivable－related parties, net (note 7)	3,304	-	1,063	-
Other accounts receivable－related parties (note 7)	1,732	-	217,317	2
Inventories (note 6(7))	4,735,982	28	3,233,873	23
Other financial assets－current (note 6(6))	65,584	-	27,945	-
Other current assets (note 7)	626,162	4	306,126	2
	14,304,550	84	11,638,883	81
Non-current assets:				
Financial assets at fair value through other comprehensive income－non-current (note 6(4))	35,482	-	-	-
Financial assets at amortized cost－non-current (notes 6(3) and 8)	24,661	-	-	-
Financial assets carried at cost－non-current (note 6(5))	-	-	30,373	-
Investments accounted for using equity method (note 6(8))	45,585	-	72,825	1
Property, plant and equipment, net (notes 6(10) and 8)	1,763,447	10	1,930,150	13
Intangible assets (note 6(11))	117,081	1	135,171	1
Deferred income tax assets (note 6(17))	636,446	4	434,769	3
Refundable deposits	76,799	-	42,483	-
Net defined benefit assets (note 6(16))	87,879	1	65,877	1
Other financial assets－non-current (note 8)	-	-	32,537	-
Long-term rent prepayments (note 6(15))	7,752	-	8,145	-
Other non-current assets	19,590	-	18,061	-
	2,814,722	16	2,770,391	19
Total assets	**$ 17,119,272**	**100**	**14,409,274**	**100**

Liabilities and Equity	December 31, 2018 Amount	%	December 31, 2017 Amount	%
Current liabilities:				
Short-term borrowings (note 6(12))	$ 1,950,119	11	621,467	4
Short-term notes and bills payable (note 6(13))	200,000	1	200,000	1
Financial liabilities at fair value through profit or loss－current (note 6(2))	-	-	2,933	-
Contract liabilities－current (note 6(21))	259,836	2	-	-
Notes and accounts payable	5,097,037	30	3,565,010	25
Accounts payable－related parties (note 7)	6,333	-	840	-
Payroll and bonus payable	532,102	3	574,803	4
Royalty payable	204,318	1	221,871	2
Other payables－related parties (note 7)	5,072	-	-	-
Income tax payable	36,617	-	31,694	-
Provision for warranty obligations－current (note 6(14))	540,742	3	214,791	2
Advance receipts	1,637	-	60,784	-
Other current liabilities (note 6(6))	694,449	4	706,896	5
	9,528,262	55	6,201,089	43
Non-current liabilities:				
Deferred income tax liabilities (note 6(17))	280,128	2	221,082	2
Net defined benefit liabilities (note 6(16))	3,649	-	3,027	-
Guarantee deposits received	899	-	709	-
	284,676	2	224,818	2
Total liabilities	9,812,938	57	6,425,907	45
Equity (note 6(18))**:**				
Equity attributable to the shareholders of the parent company:				
Common stock	4,411,773	26	4,411,773	31
Capital surplus	3,725,204	22	3,720,573	26
Retained earnings (accumulated deficits)	(439,594)	(2)	126,249	1
Other equity	(335,286)	(2)	(221,386)	(2)
Treasury stock	(120,861)	(1)	(120,861)	(1)
	7,241,236	43	7,916,348	55
Non-controlling interests	65,098	-	67,019	-
Total equity	7,306,334	43	7,983,367	55
Total liabilities and equity	**$ 17,119,272**	**100**	**14,409,274**	**100**

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars , except for earnings per share)

	2018		2017	
	Amount	%	Amount	%
Operating revenues (notes 6(21), (22) and 7)	$ 22,222,727	100	19,141,444	100
Cost of goods sold (notes 6(7) and 7)	18,052,949	81	14,864,776	78
Gross profit	4,169,778	19	4,276,668	22
Operating expenses (note 7)**:**				
Selling and marketing	2,274,901	10	2,056,543	11
General and administrative	773,302	3	866,235	4
Research and development	1,754,540	8	1,884,227	10
Impairment loss determined in accordance with IFRS 9 (note 6(6))	125,827	1	-	-
Total operating expenses	4,928,570	22	4,807,005	25
Operating income (loss)	(758,792)	(3)	(530,337)	(3)
Non-operating income (expenses):				
Other income (notes 6(23) and 7)	193,999	-	35,729	-
Other gains and losses (note 6(23))	66,498	-	(19,300)	-
Share of loss of associates accounted for using equity method, net (note 6(8))	(25,647)	-	(26,085)	-
Interest expense	(30,487)	-	(18,750)	-
Foreign exchange loss (note 6(25))	(81,533)	-	(65,144)	-
	122,830	-	(93,550)	-
Income (loss) before income taxes	(635,962)	(3)	(623,887)	(3)
Income tax expenses (benefit) (note 6(17))	(34,579)	-	(52,564)	-
Net income (loss)	(601,383)	(3)	(571,323)	(3)
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit plans (note 6(16))	11,506	-	12,423	-
Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(18))	(21,452)	-	-	-
Total items that will not reclassified subsequent to profit or loss	(9,946)	-	12,423	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign financial statements	(98,441)	-	(24,594)	-
Income tax related to components of other comprehensive income to be reclassified to profit or loss (note 6(17))	26,494	-	4,309	-
Total items that may be reclassified subsequently to profit or loss	(71,947)	-	(20,285)	-
Other comprehensive income for the period	(81,893)	-	(7,862)	-
Total comprehensive income for the year	**$ (683,276)**	**(3)**	**(579,185)**	**(3)**
Net income (loss) attributable to:				
Shareholders of the parent	$ (596,490)	(3)	(569,752)	(3)
Non-controlling interests	(4,893)	-	(1,571)	-
	$ (601,383)	**(3)**	**(571,323)**	**(3)**
Total comprehensive income attributable to:				
Shareholders of the parent	$ (679,743)	(3)	(578,368)	(3)
Non-controlling interests	(3,533)	-	(817)	-
	$ (683,276)	**(3)**	**(579,185)**	**(3)**
Earnings per share (New Taiwan Dollars) (note 6(20))**:**				
Basic earnings per share	**$ (1.38)**		**(1.32)**	
Diluted earnings per share	**$ (1.38)**		**(1.32)**	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to the shareholders of the parent												
			Retained earnings (accumulated deficits)				Total other equity interest						
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (Accumulated deficits)	Total	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Total	Treasury shares	Subtotal of equity attributable to the shareholders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2017	$ 4,411,773	3,718,694	251,553	-	520,261	771,814	(200,347)	-	(200,347)	(120,861)	8,581,073	45,816	8,626,889
Net income (loss) for the period	-	-	-	-	(569,752)	(569,752)	-	-	-	-	(569,752)	(1,571)	(571,323)
Other comprehensive income (loss) for the period	-	-	-	-	12,423	12,423	(21,039)	-	(21,039)	-	(8,616)	754	(7,862)
Total comprehensive income (loss) for the period	-	-	-	-	(557,329)	(557,329)	(21,039)	-	(21,039)	-	(578,368)	(817)	(579,185)
Appropriation and distribution of retained earnings:													
Legal reserve	-	-	28,280	-	(28,280)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	200,347	(200,347)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(88,236)	(88,236)	-	-	-	-	(88,236)	-	(88,236)
Cash dividends received by subsidiaries from parent company	-	1,879	-	-	-	-	-	-	-	-	1,879	-	1,879
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	10,080	10,080
Issuance of common stock in cash from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	11,940	11,940
Balance at December 31, 2017	4,411,773	3,720,573	279,833	200,347	(353,931)	126,249	(221,386)	-	(221,386)	(120,861)	7,916,348	67,019	7,983,367
Effects of retrospective application of new accounting standards	-	-	-	-	19,141	19,141	-	(19,141)	(19,141)	-	-	-	-
Balance at January 1, 2018 after adjustment	4,411,773	3,720,573	279,833	200,347	(334,790)	145,390	(221,386)	(19,141)	(240,527)	(120,861)	7,916,348	67,019	7,983,367
Net income (loss) for the period	-	-	-	-	(596,490)	(596,490)	-	-	-	-	(596,490)	(4,893)	(601,383)
Other comprehensive income (loss) for the period	-	-	-	-	11,506	11,506	(73,307)	(21,452)	(94,759)	-	(83,253)	1,360	(81,893)
Total comprehensive income (loss) for the period	-	-	-	-	(584,984)	(584,984)	(73,307)	(21,452)	(94,759)	-	(679,743)	(3,533)	(683,276)
Compensation expense of employee stock options	-	3,243	-	-	-	-	-	-	-	-	3,243	-	3,243
Issuance of common stock in cash to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	3,000	3,000
Changes in capital surplus of subsidiaries accounted for using equity method	-	1,388	-	-	-	-	-	-	-	-	1,388	(1,388)	-
Balance at December 31, 2018	**$ 4,411,773**	**3,725,204**	**279,833**	**200,347**	**(919,774)**	**(439,594)**	**(294,693)**	**(40,593)**	**(335,286)**	**(120,861)**	**7,241,236**	**65,098**	**7,306,334**

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

	2018	2017
Cash flows from operating activities:		
Income (loss) before income tax	$ (635,962)	(623,887)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	254,308	255,150
Amortization expense	80,279	53,178
Expected credit loss (gain) / Provision (reversal of provision) for doubtful accounts	125,827	57,037
Provision for warranties and after service cost	413,879	120,036
Provision of allowance for sales discounts	59,863	61,000
Net loss (profit) on financial assets or liabilities at fair value through profit or loss	(37,180)	44,621
Interest expense	30,487	18,750
Interest income	(18,738)	(19,566)
Share-based compensation expenses	3,243	-
Share of loss (profit) of associates accounted for using equity method	25,647	26,085
Loss (gain) on disposal of property, plant and equipment	(15)	(6,350)
Loss (gain) on disposal of investment	-	(2,338)
Provision for inventory obsolescence	199,603	322,449
Others	858	-
Total adjustments to reconcile profit (loss)	1,138,061	930,052
Changes in operating assets and liabilities:		
Financial assets or liabilities at fair value through profit or loss	36,980	(41,183)
Notes and accounts receivable (including related parties)	(2,372,892)	420,688
Other accounts receivable－related parties	151,344	(1,431)
Inventories	(1,693,577)	(38,127)
Other financial assets and other current assets	(350,811)	51,827
Total changes in operating assets	(4,228,956)	391,774
Notes and accounts payable (including related parties)	1,537,520	23,465
Other payables to related parties	5,072	(12,504)
Contract liabilities, advance receipts and other current liabilities	(47,887)	(33,758)
Net defined benefit asset and liabilities	(9,874)	(5,289)
Total changes in operating liabilities	1,484,831	(28,086)
Total changes in operating assets and liabilities	(2,744,125)	363,688
Total adjustments	(1,606,064)	1,293,740
Cash inflow (outflow) generated from operations	(2,242,026)	669,853
Interest received	18,105	20,347
Dividends received	1,593	-
Interest paid	(29,796)	(18,805)
Income taxes paid	(85,955)	(131,820)
Net cash flows from (used in) operating activities	(2,338,079)	539,575

(Continued)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Statements of Cash Flows (continue)

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

	2018	2017
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(26,561)	-
Acquisition of financial assets at amortized cost	(1,603,880)	-
Proceeds from repayments of financial assets at amortized cost	1,249,589	-
Proceeds from capital of financial assets at cost	-	6,499
Acquisition of investments accounted for using equity method	-	(34,250)
Net cash inflow from acquisition of subsidiary	-	18,040
Acquisition of property, plant and equipment	(110,060)	(212,818)
Proceeds from disposal of property, plant and equipment	2,275	8,184
Increase in refundable deposits	(34,316)	(14,222)
Acquisition of intangible assets	(30,308)	(59,091)
Decrease (increase) in other financial assets	(341)	31,994
Increase in other non-current assets	(33,557)	(23,423)
Net cash flows from (used in) investing activities	(587,159)	(279,087)
Cash flows from financing activities:		
Increase in short-term loans	1,367,615	91,548
Increase in short-term notes and bills payable	-	50,000
Cash dividends paid	-	(86,357)
Increase (decrease) in guarantee deposits received	195	(1,328)
Issuance of common stock in cash to non-controlling interests	3,000	11,940
Net cash flows from (used in) financing activities	1,370,810	65,803
Effect of exchange rate changes on cash and cash equivalents	(126,471)	(33,104)
Net increase (decrease) in cash and cash equivalents	(1,680,899)	293,187
Cash and cash equivalents at beginning of period	3,181,431	2,888,244
Cash and cash equivalents at end of period	**$ 1,500,532**	**3,181,431**
Cash flows arising from changes in consolidated entities, with the details of assets and liabilities shown as follows:		
Cash and cash equivalents		$ 22,960
Accounts receivable, net		2,809
Inventories		496
Property, plant and equipment, net		53
Other current assets		72
Other non-current assets		1,653
Intellectual property		980
Other current liabilities		(4,023)
Fair value of non-controlling interest on the acquisition date		(10,080)
Fair value of subsidiary's equity on the acquisition date		14,920
Less: Cash of subsidiary		(22,960)
Fair value of previously-held interest at the acquisition date		(10,000)
Net cash inflow from acquisition of subsidiary		**$ (18,040)**

See accompanying notes to consolidated financial statements.

1. Company history

Unizyx Holding Corporation (the "Unizyx") was incorporated on August 16, 2010. Unizyx was set up through a share swap with ZyXEL Communications Corp. ("Zyxel"). The shares of Unizyx have been authorized by the Financial Supervisory Commission, R.O.C. ("FSC") and are traded on the Taiwan Stock Exchange (TSE). The address of its registered office and principal place of business is 3F, No. 363, Sec. 2, Gongdao 5th Rd., Hsinchu City, Taiwan. Unizyx's main activity is investment.

As approved by the Unizyx's and Zyxel's board of directors' meeting on October 15, 2010, MitraStar Technology Corp. ("MitraStar"), an OEM/ODM Business Unit of Zyxel, was spun off from Zyxel and became a 100%-held subsidiary of Unizyx on January 1, 2011. Zyxel and MitraStar will focus on and optimize their operations in different areas of the communication product value chain, with one focusing on Zyxel brand communication product marketing and sales, and the other concentrating on communication technology development and product manufacturing. The focused and optimized operation of each subsidiary is expected to increase the overall efficiency of the Zyxel group. Zyxel spun off net operating assets amounting to $3,530,734 to MitraStar and exchanged one share of MitraStar's common stock valued at New Taiwan Dollars (TWD) $10 per share for each share of Zyxel's stock valued at TWD $10.51 per share. Unizyx acquired 336,081 thousand shares of MitraStar's new issued common stock, and Zyxel and MitraStar became 100%-held subsidiaries of Unizyx.

Zyxel was incorporated on August 16, 1989, at the Hsinchu Science-based Industrial Park. The shares of Zyxel were traded on the TSE beginning on August 12, 1999. Zyxel's main activities include the research, development, production and sale of high-speed multi-mode modems and application-specific chipsets (ASICs), secure telephones, network modems, digital video coders and decoders, wide area networks (WANs), local area networks (LANs), and integrated service digital network (ISDN) equipment. In addition, it provides related consulting and design services and imports and exports related products. The stock of Zyxel stopped being publicly traded on September 2, 2010, as approved by the Securities and Futures Bureau.

MitraStar was incorporated on November 12, 2010, at the Hsinchu Science-based Industrial Park. MitraStar's main activities included manufacturing of wired communication equipment and apparatus, electronic parts and components, restrained telecom radio frequency equipment and materials, computer and computing peripheral equipment, data storage media and duplicating, wholesaling of computer software, restrained telecom radio frequency equipment and materials importing, software design services, digital information supply services, etc.

The consolidated financial statements as of December 31, 2018 and 2017, included Unizyx and its subsidiaries (hereinafter refer to as the "Company").

2. Approval date and procedures of the consolidated financial statements:

The consolidated financial statements were authorized for issue by the Board of Directors on March 14, 2019.

(Continued)

3. New standards, amendments and interpretations adopted:

(1) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows - Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

A. IFRS 9 "Financial Instruments"

IFRS 9 " Financial Instruments" (" IFRS 9") replaces IAS 39 " Financial Instruments: Recognition and Measurement" ("IAS 39") which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Company adopted the consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables in selling expenses. Additionally, the Company adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

(a) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument, as a whole, is assessed for classification. For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(7).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

(b) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVTOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(7).

(c) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, and therefore, is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  ─ The determination of the business model within which a financial asset is held.

  ─ The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  ─ The designation of certain investments in equity instruments not held for trading as at FVTOCI.

(Continued)

- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company shall assume that the credit risk on its asset will not increase significantly since its initial recognition.

(d) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as of January 1, 2018.

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and cash equivalents	Loans and receivables	3,181,431	Amortized cost	3,181,431
Derivative instruments	Held-for-trading	2,388	Mandatorily at FVTPL	2,388
Equity instruments	Designated as at FVTPL (note 1)	2,199	Mandatorily at FVTPL	2,199
Equity instruments	Available-for-sale (note 2)	30,373	FVTOCI	30,373
Trade and other receivables	Loans and receivables	4,667,604	Amortized cost	4,667,604
Other financial assets-current and non-current	Loans and receivables	60,482	Amortized cost	60,482
Guarantee deposits paid	Loans and receivables	42,483	Amortized cost	42,483

Note1: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Note2: These equity securities (including financial assets measured at cost) represent investments that the Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at FVTOCI. Accordingly, no increase in those assets were recognized; however, a decrease of $19,141 in other equity, as well as the increase $19,141 in retained earnings were recognized on January 1, 2018.

(Continued)

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	Fair value through other comprehensive income Available for sale to FVTOCI
2017.12.31 IAS 39 Carrying Amount	$ -
Reclassifications	30,373
Remeasurements	-
2018.1.1 IFRS 9 Carrying Amount	**$ 30,373**
2018.1.1 Retained earnings	**$ 19,141**
2018.1.1 Other equity	**$ (19,141)**

B. IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 "Revenue" ("IAS 18") and IAS 11 "Construction Contracts" ("IAS 11"). The Company elected not to retrospectively apply this standard to the comparative reporting period in which IAS 11, IAS 18 and the related interpretations were applied. The Company recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The following are the nature and impacts of the changes in accounting policies:

(a) Sales of goods

For the sales of goods, revenue was previously recognized depending on the individual terms of the sales agreement. For export sales that are usually FOB shipping point, transfer of risks and rewards of ownership occurs upon loading the goods onto the relevant carrier at the port. For domestic sales, transfer of risks and rewards of ownership occurs upon issuance of receipt by the customer. The related risks and rewards of ownership have to be transferred prior to recognition of revenue. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue is recognized when a customer obtains control of the goods. The Company has performed an assessment to conclude the timing of the related risks and rewards of the goods ownership transferred is similar to the timing when control is transferred, therefore, the Company believes that there will be no significant impact on its consolidated financial statements.

(Continued)

For certain contracts that permit a customer to return an item, revenue is currently recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. Otherwise, a revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made. Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Company is unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the statement of financial position.

(b) Rendering of services

The Company provides design services to its customers. The revenue from service rendered is recognized in profit in proportion to the stage of completion of the transaction at the reporting date. Under IFRS 15, the activity, wherein design services are generated, will be identified as a separate performance obligation and their transaction prices will be allocated according to the related standalone selling prices of services. The Company compared the fair-value price and the stand-alone selling price of the service, in which their prices are similar; therefore, the Company believes there will be no significant impact on its consolidated financial statements.

(c) Warranties

The Company provides warranties of 12 to 24 months for different categories of products. The warranty provision was previously estimated based on the probability for repairing or replacing the products. Under IFRS 15, the warranties are divided into assurance-type warranty and service-type warranty; if the Company provide the service type warranty, that warranty should be accounted for as a separate performance obligation. The Company has performed an assessment of providing standard warranties to its customers ensuring the product specifications are based on the agreement. Therefore, the Company believes that there will be no significant impact on its consolidated financial statements.

(d) Impacts on financial statements

The adoption of IFRS 15 did not have any material impact on its consolidated statements of comprehensive income.

C. Amendments to IAS 7 “Disclosure Initiative”

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Company present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(28).

(Continued)

D. Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Company believes that the adoption of the amendment would not have any material impact on its consolidated financial statements.

(2) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

A. IFRS 16"Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 " Leases" , IFRIC 4 " Determining whether an Arrangement contains a Lease" , SIC-15 " Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

(a) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or

(Continued)

- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Company plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(b) Transition

As a lessee, the Company can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Company plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Company estimated that its right-of-use assets and lease liabilities to increase by $511,789 and $527,692, respectively, as well as its long term prepaid rents and retained earnings to decrease by $7,752 and $23,655, respectively, on January 1, 2019.

(Continued)

B. IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts which it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Company estimated the application of the amendments would not have any material impact on its consolidated financial statements.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(3) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Company completes its evaluation.

4. Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all the periods presented in the consolidated financial statements.

(Continued)

(1) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China (hereinafter referred to as the Regulations), International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as "IFRS endorsed by the FSC").

(2) Basis of preparation

A. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated statement of balance sheets:

(a) Financial assets at fair value through other comprehensive income are measured at fair value;

(b) Financial assets at fair value through profit or loss are measured at fair value (including derivative financial instruments);

(c) The net defined benefit liability (asset) is recognized based on the fair value of the plan assets, less, the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of each entity is determined based on the primary economic environment in which the entity operates. TWD is Unizyx's functional currency, which is also the Company' s presentation currency. Unless otherwise noted, all financial information presented in TWD has been rounded to the nearest thousand.

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise Unizyx and its subsidiaries (including structured entity). The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions are eliminated in preparing the consolidated financial statements.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(Continued)

If the Company loses control over its subsidiary, the Company shall derecognize the assets (including any goodwill) and liabilities of the former subsidiary from the consolidated statements of its financial position, and recognize any investment retained in the former subsidiary at its fair value when control is lost. The gain or loss associated with the loss of control is the difference between: (a) the sum of the fair value of the consideration received and investment retained in the former subsidiary at its fair value when control is lost, and (b) the sum of the assets (including any goodwill) and liabilities of the former subsidiary and the carrying value of the non-controlling interests when control is lost. The Company shall account for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of its related assets and liabilities.

B. List of subsidiaries in the consolidated financial statements

The consolidated entities were as follows:

Name of Investor	Name of Subsidiary	Business Nature	Percentage of Ownership (%) December 31, 2018	Percentage of Ownership (%) December 31, 2017	note
Unizyx	Zyxel	Development, manufacturing and sales of communications and networking products	100 %	100 %	
Unizyx	MitraStar	Development, manufacturing and sales of communications and networking products	100 %	100 %	
Unizyx	Black Cat Incorporation (Black Cat)	Development and sales of information security products, and consultant management services	77 %	100 %	
Zyxel	ZyChamp Investment Co., Ltd. (Zychamp)	Investment activities	100 %	100 %	
Zyxel	Zyxel Communications Inc. (ZyUSA)	Sales and marketing	100 %	100 %	
Zyxel	Zyxel Communications A/S (ZyAS)	Sales and marketing	100 %	100 %	
Zyxel	Zyxel Singapore Private Ltd. (ZySG)	Sales and marketing	100 %	100 %	note 1
Zyxel	VICTOR BLUE LIMITED (VICTOR)	Investment activities	100 %	100 %	
Zyxel	Zytpe Communications Corporation (ZyTPE)	Sales and development of communications and networking products	100 %	100 %	
Zyxel	Sphairon GmbH (a Zyxel Company) (Sphairon)	Development of communications and network products	100 %	100 %	

(Continued)

Name of Investor	Name of Subsidiary	Business Nature	Percentage of Ownership (%) December 31, 2018	Percentage of Ownership (%) December 31, 2017	note
Zyxel	Zyxel Iletisim Teknolojileri A.S. (ZyTR)	Sales and marketing	100 %	100 %	
Zyxel	Zyxel Communications Do Brasil Ltda. (ZyBR)	Sales and marketing	100 %	100 %	
Zyxel	Zyxel Middle East FZE (ZyME)	Sales and marketing	100 %	100 %	
Zyxel	Zyxel Technology India Pvt Ltd. (ZyIN)	Sales and marketing	100 %	100 %	
Zyxel	Zyxel Online OÜ (ZyEE)	Sales and marketing	100 %	-	
Zyxel	Zyxel Korea Co., Ltd. (ZyKR)	Sales and marketing	65 %	65 %	
Zyxel	Ardomus Networks Corporation (Ardomus)	Development and sales of network digital control products	64 %	70 %	
Zyxel	Ecowork Inc. (Ecowork)	Service of database of Chinese studies, cross-platform mobile applications and global network construction	60 %	60 %	
Zyxel	Zyxel (Thailand) Company, Ltd. (ZyTH)	Sales and marketing	51 %	51 %	
MitraStar	Bluebell Overseas Ltd. (Bluebell)	Investment activities	100 %	100 %	
MitraStar	Wuxi Genezys Technology Ltd. (Genezys)	Development of communications and network products	100 %	100 %	
MitraStar	Shanghai Monetics Telecommunications Co., Ltd. (Monetics)	Sales of communications, network products and network technology transfer service	50 %	50 %	
Bluebell	Wuxi MitraStar Technology Co., Ltd. (Wuxi MSTC)	Manufacture and sales of communications and network products and technical consulting service	100 %	100 %	
Bluebell	Monetics	Sales of communications, network products and network technology transfer service	50 %	50 %	
VICTOR	Zyxel Malaysia Sdn Bhd (ZyMY)	Sales and marketing	100 %	100 %	note 1

(Continued)

Name of Investor	Name of Subsidiary	Business Nature	Percentage of Ownership (%) December 31, 2018	Percentage of Ownership (%) December 31, 2017	note
VICTOR	Zyxel Communications (Shanghai) Co., Ltd. (ZySHA)	Sales of communications, network products and technical consulting service	100 %	100 %	
VICTOR	Tianjin Huagin Communications Equipment Co., Ltd. (Tianjin Huagin)	Manufacture, sale of communications, network products and technical consulting service	95 %	95 %	
ZyAS	Zyxel Deutschland GmbH (ZyDE)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications UK Ltd. (ZyUK)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications Czech s.r.o. (ZyCZ)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications B.V. (ZyBNL)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications Iberia S.L (ZyES)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications Italy S.r.l (ZyIT)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications RU LLC (ZyRUS)	Sales and marketing	100 %	100 %	
ZyUSA	Flatworld Networks LLC (Flatworld)	Sales and marketing	-	-	note 2

Note 1: ZySG and ZyMY were liquidated in January 2019.

Note 2: Flatworld is a structured entity. The entity is established only with nominal capital, with its main source of funding from ZyUSA. It is controlled by ZyUSA, providing sale and marketing of obsolete stocks for ZyUSA. As a result, it is considered as a subsidiary of ZyUSA.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Change in subsidiaries included in the consolidated financial statements:

Due to the adjustment of its group investment structure, Zyxel acquired 100% and 51% shares of ZyIN and ZyTH, separately, by book value from its subsidiary, Victor, in April 2017.

For the purpose of expanding Russian market, ZyAS set up a new 100% owned sub-subsidiary, ZyRUS, in July 2017. It was included in its consolidated financial statements since its inception.

(Continued)

For the purpose of building up its business partnership, Zyxel increased its capital by $4,920 in cash to acquire part of shares of Ecowork in November 2017, resulting in Zyxel owing 40% to 60% shares of Ecowork. It was included in its consolidated financial statements since its acquisition.

For the purpose of building up its business partnership and improving information security management, Unizyx set up a new 100% owned sub-subsidiary, Black Cat in November 2017. It was included in its consolidated financial statements since its inception.

For the purpose of expanding its e-commerce business, Zyxel set up a new 100% owned subsidiary, ZyEE, in December 2018. Therefore, the new owned subsidiary was included in its consolidated financial statements since its inception.

(4) Foreign currencies

A. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of consolidated entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting periods (hereinafter referred as "the reporting date") are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TWD at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to TWD at the average rate. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Company disposes of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(Continued)

(5) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

A. It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;

B. It is held primarily for the purpose of trading;

C. It is expected to be realized within twelve months after the reporting period; or

D. The asset is cash or a 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.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

A. It is expected to be settled in the normal operating cycle;

B. It is held primarily for the purpose of trading;

C. It is due to be settled within twelve months after the reporting period; or

D. It 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 issuing equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Time deposits with maturities of less than three months are used for short-term cash commitments instead of investment and are subject to an insignificant risk of changes in their fair value, and are classified as cash and cash equivalents.

(7) Financial instruments

A. Financial assets (policy applicable from January 1, 2018)

The Company classifies financial assets into the following categories: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL).

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

(Continued)

(a) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

(b) Fair value through other comprehensive income (FVTOCI)

A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

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

A financial asset measured at FVTOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVTOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retained earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

(Continued)

(c) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVTOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVTOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

(d) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized costs, notes and accounts receivable, other receivable, guarantee deposit paid and other financial assets).

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

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

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

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

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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

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

(Continued)

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade which is considered to be BBB- or higher per Standard & Poor’s, Baa3 or higher per Moody’s or twA or higher per Taiwan Ratings’.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 180 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

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

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVTOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data：

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVTOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

(Continued)

(e) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

B. Financial assets (policy applicable before January 1, 2018)

The Company classifies financial assets into the following categories: financial assets measured at fair value through profit or loss, receivables and financial assets carried at cost.

(a) Financial assets measured at fair value through profit or loss

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in a statement of comprehensive income account. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

(b) Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise notes and accounts receivable and other receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less any impairment losses. Interest on short-term accounts receivable is not calculated because it does not have significant influence. Trade-date accounting is used when purchasing or disposing financial assets.

(c) Financial assets carried at cost

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are carried at their cost, less, any impairment losses.

(d) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

(Continued)

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for accounts receivable, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of a receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss. Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses and recoveries on receivables are recognized in selling expense; Impairment losses and recoveries on financial assets other than receivables are recognized in non-operating income and expenses.

(e) Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

C. Financial liabilities and equity instruments

(a) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

(Continued)

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received less the direct cost of issuance.

(b) Financial liabilities measured at fair value through profit or loss

A financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term. Financial liabilities in this category are measured at fair value at initial recognition.

(c) Other financial liabilities

Financial liabilities which comprise short-term borrowings, short-term notes and bills payable, notes accounts payable (including related parties), and other payables (including related parties) are measured at fair value, plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expenses that are not capitalized as asset costs are recognized in profit or loss and are reported under non-operating income and expenses.

(d) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in non-operating income and expenses.

(e) Offsetting of financial assets and liabilities

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

D. Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income.

When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. The costs of inventories include expenditure incurred in acquiring the inventories, production or conversion costs, and other costs (weighted-average method). In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(Continued)

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

(9) Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align their accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. The difference in the changes in equity, which are not related to income and other comprehensive income, and those not affecting the ownership of shares of the affiliated company, are recognized as adjustment credit to capital surplus by ownership of shares.

Unrealized profits resulting from transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses on transactions with an associate are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Company's share of losses exceeds its interests in associates, the carrying amount of that investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has a present legal or constructive obligation or has made payments on behalf of the investee.

(10) Property, plant and equipment

A. Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost of self-constructed assets includes expenditure that is directly attributed to the acquisition of the asset, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of software is capitalized as part of the equipment if the purchase of the software is necessary for the equipment to be capable of operating.

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 shall be depreciated separately, unless the useful life and depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in non-operating income and expenses.

(Continued)

B. Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company and the amount can be reliably measured. The carrying amount of those parts that are replaced is derecognized. Maintenance and repairs are recognized in profit or loss as incurred.

C. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over the asset's useful life. A significant component of an item of property, plant and equipment which has a different useful life from the remainder of the item is depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

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

(a) Buildings: 25 to 40 years.

(b) Building improvements: 5 to 15 years.

(c) Machinery, and research and development equipment: 3 to 12 years.

(d) Office equipment and others: 3 to 10 years.

(e) Buildings and building improvements constitute mainly buildings and their related facilities, air-condition systems etc. Each such part depreciates based on its useful life of 5 to 40 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

(11) Leases

A. Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

B. Lessee

Other leases are operating leases and the related assets are not recognized in the Company's statement of balance sheets.

Payments made under an operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(Continued)

C. Long-term prepayment for rentals

The charges for land use rights are recorded at acquisition cost. Based on the shorter of the contract period or estimated benefit duration, the cost of land use rights is amortized using the straight-line method over a term of 25 or 50 years.

(12) Intangible assets

A. Research & development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

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

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

(c) The ability to use or sell the intangible asset.

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

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

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

B. Other intangible assets

Other intangible assets that are acquired by the Company are measured at cost less accumulated amortization and any accumulated impairment losses.

C. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

D. Amortization

The amortizable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives (5 years for trade right and computer software) from the date that they are available for use.

(Continued)

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end by the Company. Any change shall be accounted for as changes in accounting estimates.

(13) Impairment – non-financial assets

Except for inventories, deferred income tax assets, and a defined benefit asset, the Company assesses whether impairment has occurred in non-financial assets on every reporting date, and estimates the recoverable amount. If it is not possible to determine the recoverable amount for the individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell and value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Company re-assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset' s recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount as a reversal of a previously recognized impairment loss.

(14) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(15) Treasury stock

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under capital reserve – treasury share transactions; Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

(Continued)

In the retirement of treasury shares, capital reserve – share premiums and share capital should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital surplus arising from similar types of treasury shares; Losses on cancellation of treasury shares should be offset against existing capital surplus arising from similar types of treasury shares. If there are insufficient capital surplus to be offset against, then such losses should be accounted for under retained earnings.

(16) Revenue recognition

A. Revenue from contracts with customers (policy applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

(a) Sale of goods

The Company manufactures and sells wired and wireless broadband communications network products. The Company recognizes its revenue when control of the products has been transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

When the Company offers volume discounts to its customers, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

The average credit period for the sales of wired and wireless broadband communications network products is 90 to 180 days.

The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision for warranty; Please refer to note 6(14).

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

(Continued)

(b) Rendering of services

The Company recognizes revenue from providing services in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. The proportion of services provided is determined based on the rendered services to date as a proportion of the total estimated rendered services of the transaction.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by the management.

(c) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods, or services to the customer and payment by the customer, exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

B. Revenue recognition (policy applicable before January 1, 2018)

(a) Sales of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The Company provides allowances for sales discounts to clients to relieve provision of warranties. Allowances for sales discounts are estimated based on a fixed ratio stated in the sales agreement and the discount is recognized as a reduction of revenue in the same period when the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For export sales with FOB shipping point, transfer of risk and rewards of ownership occurs upon loading the goods onto the relevant carrier at the port. Generally for such products, the customer has no right of return. For domestic sales, transfer of risk and rewards of ownership occurs upon receipt by the customer.

(Continued)

(b) Services

The Company provides design service to customers. Revenue from service rendered is recognized in profit in proportion to the stage of completion of the transaction at the reporting date.

C. Rental income

Income from subletting real estate is recognized as non-operating income and expense.

D. Government grants

A government grant is not recognized until there is reasonable assurance that the Company will comply with the conditions attached to it, and that the grant will be received. The grants shall be recognized in profit or loss on a systematic basis over the periods in which the related costs intended to compensate are recognized as expenses.

(17) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company' s net obligation in respect of the defined benefit pension plans is calculated separately for each plan by estimating the amount of the future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any fair value of any plan asset is deducted. The discount rate is the yield at the reporting date (market yields of government bonds) on bonds that have maturity dates approximating the terms of the Company' s obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the expense of the increased benefits relating to past service by employees is recognized immediately in profit or loss.

(Continued)

Remeasurements of the net defined benefit liabilities (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. Remeasurements of the net defined benefit liabilities (asset) are recognized in other comprehensive income. The Company also reclassified the amount recognized in other comprehensive income to retained earnings.

The Company recognizes the gains or losses on the curtailment or settlement of the defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of the plan assets and in the present value of the defined benefit obligation.

C. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Under short-term cash bonus or profit-sharing plans, a liability is recognized for the amount expected to be paid if the Company has either a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(18) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(19) Income tax

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

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the reasons that related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.

(Continued)

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

A. The entity has the legal right to settle tax assets and liabilities on a net basis; and

B. The taxing of deferred tax assets and liabilities fulfills one of the below scenarios:

   (a) levied by the same taxing authority; or

   (b) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

In accordance with the Article 40 of Business Mergers and Acquisitions Act, the Company has adopted its parent company, Unizyx, as the taxpayer to file a combined corporate income tax return and the 10% surtax on undistributed earnings from 2011.

Unizyx and the Company' s domestic subsidiaries firstly calculated their respective income tax provision according to IAS 12 Income Taxes and reconciled the difference between the separate income tax returns and the combined final business income return. The differences were allocated to all combined entities on a reasonable, systematic and consistent basis and consequently to current year's income tax expense and deferred income tax expenses.

(20) Business combination

Business combination is measured at the consideration transferred less the amounts of the identifiable assets acquired and liabilities assumed (generally at fair value) at the acquisition date. If the amount of net assets acquired and liabilities assumed exceeds the acquisition price, the Company reassesses whether it has correctly identified all of the assets acquired and liabilities assumed, and recognizes a gain for the excess.

All transaction costs relating to a business combination are recognized immediately as expenses when incurred, except for the issuance of debt or equity instruments.

(Continued)

The Company shall measure any non-controlling interests in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, if the non-controlling interests are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other non-controlling interests are evaluated by their fair value or by another basis permitted by the IFRSs endorsed by the FSC.

In a business combination achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition date fair value, and the resulting gain or loss, if any, is recognized in profit or loss. As for the changes of the amounts resulting from the acquirees' interests that were recognized as other comprehensive income before the acquisition date, the accounting procedures shall be the same with those of the Company' s disposal on its acquirer's previously-held equity interest in the acquiree.

(21) Earnings per share

The Company discloses basic and diluted earnings per share attributable to ordinary equity holders of Unizyx. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of Unizyx divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of Unizyx divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as convertible preferred shares, convertible notes, employee stock options, unvested restricted stock awards, and employee bonus.

(22) Operating segment information

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company). Operating results of the operating segment are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

5. Major sources of accounting judgments, estimations and assumptions of uncertainty:

The preparation of the consolidated financial statements based on the IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amount of assets, liabilities, income and expense. Actual results may differ from these estimates.

Management continues to monitor the accounting assumptions, estimates and judgments. Management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

(Continued)

Information about critical assumptions and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

(1) Valuation of Accounts Receivable

The Company has its customers spread throughout the globe, wherein they are vulnerable to various changes, such as environmental, economic as well as legal matters. Therefore, the customer credit control is considered to be more complex. When assessing the recoverability of the Company' s receivables, it is necessary to consider any changes in the credit quality of the receivables from the original grant date to the reporting date. For those receivables that have not been withdrawn within the credit term, the balance of the accounts receivable is calculated by reference from the transaction in the past, current financial status, and expected credit losses, in order to estimate the amount of allowance for bad debts. Please refer to note 6(6) "Explanation of significant accounts－Notes, accounts receivable and other receivables, net" to the consolidated financial statements and note 7(2) "Significant related-party transactions".

(2) Valuation of Inventories

The Company mainly engages in the research and development, as well as the production of communication and network products. Inventories are stated at the lower of cost or net realizable value. The Company used judgment and estimate to determine the net realizable value of inventory at the end of each reporting period. However, the rapid evolution of technology and the fierce market competition may lead to obsolete inventories and unmarketable items. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments. Please refer to note 6(7) "Explanation of significant accounts－Inventories, net" to the consolidated financial statements.

Accounting policies and disclosures of the Company include the fair value measurement for financial or non-financial assets and liabilities. The Company determines the fair value using the independent data sources which reflect the current market condition and confirming the data available are independent, reliable, in consistent with other sources and represent the exercisable price. The Company also periodically assesses the evaluation model, performs retrospective tests, and updates inputs with any other necessary fair value adjustment for the evaluation model in order to ensure the reasonableness of the valuation.

The Company evaluates its assets and liabilities using the observable market inputs. The hierarchy of the fair value depends on the valuation techniques used, and the different levels have been defined as follows:

(1) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.

(2) Level 2: inputs (other than quoted prices) included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(3) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

When there is a transfer between levels of the fair value hierarchy, the Company recognizes the transfer at the reporting date. For the assumptions used in fair value measurement, please refer to note 6(25) of the financial instruments.

(Continued)

6. Explanation of significant accounts

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Petty cash, demand deposits, and checking accounts	$ 1,303,673	1,738,398
Cash equivalents－time deposits	196,859	1,273,033
Cash equivalents－repurchased agreements	-	170,000
	$ 1,500,532	**3,181,431**

The interest rate on repurchase agreement was 0.35% for the year ended December 31, 2017 and the repurchased bonds mature on January 4, 2018.

Please refer to note 6(25) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(2) Financial assets at fair value through profit or loss

A. Financial assets measured at fair value through profit or loss

	December 31, 2018	December 31, 2017
Financial assets held for trading:		
Beneficiary certificates – open-end fund	**$ 1,854**	**2,199**

Net profit (loss) of open-ended beneficiary certificates were as follows:

	2018	2017
Unrealized gain (loss)	**$ (344)**	**(890)**

B. Sensitivity analysis－equity market price risk

If the securities market price had changed, the impact on other comprehensive income would have been as follows (if calculated on the same basis for both years and assuming that all other variables remained the same):

	2018		2017	
Securities market price at reporting date	**Other comprehen-sive income (loss), net of taxes**	**Net income (loss)**	**Other comprehen-sive income (loss), net of taxes**	**Net income (loss)**
Increase 10%	**$ -**	**185**	**-**	**220**
Decrease 10%	**$ -**	**(185)**	**-**	**(220)**

(Continued)

C. Non-hedging derivative financial instruments

The Company uses derivative financial instruments to hedge certain foreign exchange risks that the Company is exposed to throughout its operating activities. Based on the accounting standards, the Company's derivative financial instruments do not qualify for hedge accounting. As of December 31, 2018, the forward exchange agreements were settled. The forward exchange agreements not settled as of December 31, 2017 were as follows:

	December 31, 2017			
Financial instruments	**Notional amount (in thousands of EUR)**	**Currency**	**Duration of contract**	**Fair value**
Sell forward foreign currency exchange contract	2,500	Sell EUR/ Buy USD	2017.08.29~2018.03.29	$ 956
Sell forward foreign currency exchange contract	2,200	Sell EUR/ Buy USD	2017.09.20~2018.04.23	601
Sell forward foreign currency exchange contract	800	Sell EUR/ Buy USD	2017.09.19~2018.04.23	183
Sell forward foreign currency exchange contract	1,000	Sell EUR/ Buy USD	2017.08.28~2018.03.28	180
Sell forward foreign currency exchange contract	1,000	Sell EUR/ Buy USD	2017.09.18~2018.04.20	115
Sell forward foreign currency exchange contract	500	Sell EUR/ Buy USD	2017.08.30~2018.03.29	108
Sell forward foreign currency exchange contract	1,200	Sell EUR/ Buy USD	2017.09.04~2018.04.09	81
Sell forward foreign currency exchange contract	1,000	Sell EUR/ Buy USD	2017.12.29~2018.06.04	81
Sell forward foreign currency exchange contract	500	Sell EUR/ Buy USD	2017.09.19~2018.04.20	43
Sell forward foreign currency exchange contract	500	Sell EUR/ Buy USD	2017.09.06~2018.04.09	32
Sell forward foreign currency exchange contract	500	Sell EUR/ Buy USD	2017.09.15~2018.04.19	8
Financial assets measured at fair value through profit or loss－current				**$ 2,388**

(Continued)

Financial instruments	Notional amount (in thousands of EUR)	Currency	Duration of contract	Fair value
Sell forward foreign currency exchange contract	3,000	Sell EUR/ Buy USD	2017.12.19~2018.05.21	$ (1,199)
Sell forward foreign currency exchange contract	1,500	Sell EUR/ Buy USD	2017.12.20~2018.05.22	(588)
Sell forward foreign currency exchange contract	5,500	Sell EUR/ Buy USD	2017.11.27~2018.06.29	(433)
Sell forward foreign currency exchange contract	3,800	Sell EUR/ Buy USD	2017.12.28~2018.06.04	(362)
Sell forward foreign currency exchange contract	500	Sell EUR/ Buy USD	2017.11.24~2018.06.27	(161)
Sell forward foreign currency exchange contract	500	Sell EUR/ Buy USD	2017.08.22~2018.03.26	(85)
Sell forward foreign currency exchange contract	200	Sell EUR/ Buy USD	2017.11.23~2018.06.27	(74)
Sell forward foreign currency exchange contract	100	Sell EUR/ Buy USD	2017.10.11~2018.03.13	(31)
Financial liabilities measured at fair value through profit or loss－current				**$ (2,933)**

Net income (loss) of the forward exchange agreements were as follows:

	2018	2017
Unrealized gain (loss)	$ -	(545)
Realized gain (loss)	37,524	(43,186)
	$ 37,524	**(43,731)**

The Company’s financial assets at fair value through profit or loss mentioned above were not pledged as collateral.

(Continued)

(3) Financial assets at amortized cost

	December 31, 2018
Time deposits (over 3 months)	$ 364,584
Pledged time deposits	24,661
	$ 389,245
Current	**$ 364,584**
Non-current	**$ 24,661**

The Company assessed that the above financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as financial assets at amortized cost starting on January 1, 2018.

A. The Company held domestic time deposits, at an interest rate ranging from 0.15% to 1.065% during the year ended December 31, 2018; with maturity date between June 25, 2019 and December 8, 2019. These assets were previously classified as other financial assets current and non-current on December 31, 2017; please refer to notes 6(6) and 8.

B. For credit risk, please refer to note 6(25).

C. The company's financial assets at amortized costs mentioned above were pledged as collateral; please refer to note 8.

(4) Financial assets at fair value through other comprehensive income

	December 31, 2018
Non-publicly traded stocks (domestic companies)	$ 31,057
Non-publicly traded stocks (foreign companies)	4,425
	$ 35,482

Starting on January 1, 2018, the Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for long-term for strategic purposes. These investments were classified as financial assets carried at cost – non-current on December 31, 2017; please refer to note 6(5).

For fair value and market risk; Please refer to note 6(25).

The Company's financial assets at fair value through other comprehensive income mentioned above were not pledged as collateral.

(5) Financial assets carried at cost – non-current

	December 31, 2017
Non-publicly traded stocks (domestic companies)	$ 15,080
Non-publicly traded stocks (foreign companies)	15,293
	$ 30,373

(Continued)

The equity investments held by the Company are measured at amortized cost at the reporting date since the range of reasonable fair value estimates is too wide and the probability for each estimate cannot be reasonably determined; therefore, the Company's management determined that the fair value cannot be measured reliably. These investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018; please refer to note 6(4).

The Company received $6,499 refund from liquidation of Hong Pang Venture Corp. and Chien Pang Venture Corp. in 2017, and the Company recognized the amount as other gains and losses.

For fair value and market risk, please refer to note 6(25).

The Company's financial assets carried at cost–non-current mentioned above was not pledged as collateral.

(6) Notes, accounts receivable and other receivables, net

A. Notes, accounts receivable and other receivables, net

	December 31, 2018	December 31, 2017
Notes receivable	$ 87,940	208,244
Letters of credit receivable	8,712	58,891
Accounts receivable	7,052,271	4,516,252
	7,148,923	4,783,387
Less: Provision for loss allowance	(144,107)	(88,624)
Allowance for sales discounts	-	(28,222)
	$ 7,004,816	**4,666,541**
Other receivable (recorded as other financial assets-current)		**$ 25,945**

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision as of December 31, 2018 was determined as follows:

	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ 5,889,011	0.01%	411
Overdue 1~30 days	615,759	0.33%	2,059
Overdue 31~60 days	375,402	0.08%	284
Overdue 61~90 days	57,495	3.12%	1,794
Overdue 91~180 days	45,849	15.84%	7,264
Overdue 181~360 days	92,255	64.34%	59,357
Overdue more than 361 days	73,152	99.71%	72,938
Total	**$ 7,148,923**		**144,107**

(Continued)

B. As of December 31, 2017, the Company applies the incurred loss model to estimate the loss allowance provision of notes and trade receivable. The aging analysis of notes, accounts receivable, and other receivables was as follows:

	December 31, 2017	
	Gross amount	Impairment
Current	$ 4,126,143	-
Overdue 1~30 days	391,281	-
Overdue 31~180 days	195,202	4,005
Overdue 181~360 days	32,579	24,747
Overdue more than 361 days	64,127	59,872
	$ 4,809,332	**88,624**

C. The movements in the allowance for impairment with respect to notes and accounts receivables, as well as other receivables during the year were as follows:

		2017		
	2018	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2018 and 2017 per IAS 39	$ 88,624	116,080	86,034	202,114
Adjustment on initial application of IFRS 9	-			
Balance on January 1, 2018 per IFRS 9	88,624			
Impairment losses recognized	60,739	3,056	13,518	16,574
Amounts written off	(5,115)	(119,136)	(10,837)	(129,973)
Foreign exchange gains (losses)	(141)	-	(91)	(91)
Balance on December 31, 2018 and 2017	**$ 144,107**	**-**	**88,624**	**88,624**

As of the December 31, 2017, due to the economic environment, the Company expected that several customers would be unable to pay the unpaid amounts. Based on past payment behavior and a broad analysis of customer credit ratings, the Company recognized a 100% allowance for doubtful accounts for the accounts receivable overdue more than 180 days with a lower possibility of receiving them.

An allowance for doubtful accounts is used to record bad debt. If the Company believes the amount might not be received, the allowance of doubtful accounts will be written off along with the related financial assets.

(Continued)

D. The movement in the allowances for sales discounts with respect to trade receivables during the year was as follows:

		2017
Balance at January 1	$	35,394
Allowance during the year		61,000
Write-off for the year		(65,883)
Effect of movements in exchange rates		(2,289)
Balance at December 31	**$**	**28,222**

The Company' s allowance for sales discounts in 2017 was mainly for sales of network products, calculated by using fixed ratio stated on the contracts. The Company expected the sales discounts would occur within 1 or 2 years after sales. Sales discounts amounting to $59,863 was recognized during the year 2018. The balance of allowance for sales discounts at December 31, 2018 was $18,691, which was recognized as other current liabilities.

E. Other financial assets－current

		December 31, 2018	December 31, 2017
Other receivables:			
Receivables for commission	$	35,854	11,642
Other		29,730	14,303
		65,584	25,945
Time deposits－over three months		-	2,000
	$	**65,584**	**27,945**

As of December 31, 2018, the time deposits over three months were classified as financial assets measured at amortized cost－current and non-current, please refer to note 6(3).

F. Financial assets pledged as collateral

The Company's financial assets mentioned above were not pledged as collateral.

(7) Inventories

		December 31, 2018	December 31, 2017
Raw materials	$	1,133,439	1,536,542
Work in process and semi-finished goods		403,536	115,712
Finished goods and merchandises		3,199,007	1,581,619
	$	**4,735,982**	**3,233,873**

(Continued)

	2018	2017
Amounts of inventories charged to cost of sales	$ 17,439,467	14,422,291
Provision for warranties and after service cost for the period	$ 413,879	120,036
Provision for inventory obsolescence for the period	$ 199,603	322,449

For provision for warranties and after service cost for the period, please refer to note 6(14).

The Company's inventories mentioned above were not pledged as collateral.

(8) Investment accounted for using equity method

There is no individually significant associate for the Company. The following table summarizes the amounts recognized by the Company as shares of its associates:

	December 31, 2018	December 31, 2017
Summarized information of the carrying amount of associates that are not individually material	$ 45,585	72,825

	2018	2017
Net gain (loss) attributable to the Company	$ (25,647)	(26,085)

The Company's investment accounted for using equity method mentioned above were not pledged as collateral.

(9) Business combination

As approved by the board of directors on November 9, 2017, for the purpose of expanding cloud computing, software application, development and design of database and server virtualization, the Company acquired 20% shares of Ecowork by cash amounting to $4,920, resulting in an increase of its share ownership in Ecowork from 40% to 60%. The Company then obtained control right of Ecowork, which is a company providing integrated mobile devices and cloud platform services.

From the acquisition date to December 31, 2017, Ecowork's revenue and net loss were $2,168 and $3,175, respectively. If the acquisition takes place on January 1, 2017, the management estimates that the Company's revenue and net loss would be $19,158,332 and $577,293, respectively. Upon determining the abovementioned amounts, the management hypothesized the acquisition occurred on January 1, 2017 and the adjustment of fair-value should be the same with that at the acquisition date.

The major categories of considerations transferred, assets acquired on the acquisition date and liabilities assumed, were as follows:

A. Fair value of considerations transferred

The Company acquired approximately 20% of the equity of Ecowork in cash amounting to $4,920.

(Continued)

B. Acquired identifiable assets and assumed liabilities

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

Cash and cash equivalents	$	22,960
Accounts receivable, net		2,809
Inventories		496
Property, plant and equipment, net		53
Other current assets		72
Other non-current assets		1,653
Intellectual property		980
Other current liabilities		(4,023)
	$	**25,000**

C. The Company recognized a loss of $4,161 from the remeasurement of its 40% equity interest in Ecowork's shares, which was accounted for as other income and losses.

(10) Property, plant and equipment

The cost, depreciation of the property, plant and equipment of the Company were as follows:

	Land	Building and improvement	Machinery and equipment	Research and development equipment	Office and other equipment	Construction in progress and inspection equipment	Total
Cost:							
Balance at January 1, 2018	$ 33,938	2,196,152	542,945	277,236	909,382	4,482	3,964,135
Additions for the period	-	10,190	1,641	24,454	69,373	4,402	110,060
Disposals for the period	-	(120)	-	(17,838)	(51,389)	-	(69,347)
Reclassification	-	300	275	1,207	4,506	(8,187)	(1,899)
Effect of movements in exchange rates	1,089	(18,573)	(9,575)	(1,741)	(14,078)	(59)	(42,937)
Balance at December 31, 2018	**$ 35,027**	**2,187,949**	**535,286**	**283,318**	**917,794**	**638**	**3,960,012**
Balance at January 1, 2017	$ 36,778	2,114,942	546,899	226,026	890,586	40,207	3,855,438
Additions for the period	-	35,745	3,999	53,170	63,940	55,964	212,818
Disposals for the period	-	(1,877)	(962)	(9,470)	(57,164)	-	(69,473)
Acquisition of subsidiary through mergers	-	-	-	-	53	-	53
Reclassification	-	64,912	(1,713)	8,164	17,844	(91,619)	(2,412)
Effect of movements in exchange rates	(2,840)	(17,570)	(5,278)	(654)	(5,877)	(70)	(32,289)
Balance at December 31, 2017	**$ 33,938**	**2,196,152**	**542,945**	**277,236**	**909,382**	**4,482**	**3,964,135**
Depreciation:							
Balance at January 1, 2018	$ -	865,916	304,738	147,328	716,003	-	2,033,985
Depreciation for the period	-	71,219	55,102	34,831	93,156	-	254,308
Disposals for the period	-	(120)	-	(17,185)	(49,782)	-	(67,087)
Reclassification	-	-	239	-	(239)	-	-
Effect of movements in exchange rates	-	(4,908)	(6,342)	(1,238)	(12,153)	-	(24,641)
Balance at December 31, 2018	**$ -**	**932,107**	**353,737**	**163,736**	**746,985**	**-**	**2,196,565**

(Continued)

	Land	Building and improvement	Machinery and equipment	Research and development equipment	Office and other equipment	Construction in progress and inspection equipment	Total
Balance at January 1, 2017	$ -	808,428	249,517	125,442	676,635	-	1,860,022
Depreciation for the period	-	66,503	60,207	31,570	96,870	-	255,150
Disposals for the period	-	(1,877)	(962)	(9,177)	(55,623)	-	(67,639)
Reclassification	-	(2,220)	(2,338)	-	2,764	-	(1,794)
Effect of movements in exchange rates	-	(4,918)	(1,686)	(507)	(4,643)	-	(11,754)
Balance at December 31, 2017	**$ -**	**865,916**	**304,738**	**147,328**	**716,003**	**-**	**2,033,985**
Carrying amounts:							
Balance at December 31, 2018	**$ 35,027**	**1,255,842**	**181,549**	**119,582**	**170,809**	**638**	**1,763,447**
Balance at December 31, 2017	**$ 33,938**	**1,330,236**	**238,207**	**129,908**	**193,379**	**4,482**	**1,930,150**
Balance at January 1, 2017	**$ 36,778**	**1,306,514**	**297,382**	**100,584**	**213,951**	**40,207**	**1,995,416**

As of December 31, 2018, the Company's property, plant and equipment was not pledged as collateral. However, as of December 31, 2017, the property, plant and equipment was pledged as litigation collateral. Please refer to note 8.

(11) Intangible assets

The costs of intellectual property, trading rights and computer software were presented under intangible assets, the cost and amortization of intangible assets of the Company were as follows:

	Intellectual property	Trading rights	Computer software	Total
Costs:				
Balance at January 1, 2018	$ 980	151,855	155,119	307,954
Additions for the period	-	24,945	5,363	30,308
Disposal for the period	-	-	(10,389)	(10,389)
Reclassification	-	(300)	300	-
Effect of movements in exchange rates	-	(1,396)	(337)	(1,733)
Balance at December 31, 2018	**$ 980**	**175,104**	**150,056**	**326,140**
Balance at January 1, 2017	$ -	113,455	138,649	252,104
Additions for the period	-	37,069	22,022	59,091
Reduction for the period (note)	-	(5,287)	-	(5,287)
Disposal for the period	-	-	(7,159)	(7,159)
Acquisition of subsidiary through mergers	980	-	-	980
Reclassification	-	(93)	2,505	2,412
Effect of movements in exchange rates	-	6,711	(898)	5,813
Balance at December 31, 2017	**$ 980**	**151,855**	**155,119**	**307,954**

(Continued)

	Intellectual property	Trading rights	Computer software	Total
Amortization:				
Balance at January 1, 2018	$ 980	80,682	91,121	172,783
Amortization for the period	-	28,448	19,362	47,810
Disposal for the period	-	-	(10,389)	(10,389)
Effect of movements in exchange rates	-	(1,067)	(78)	(1,145)
Balance at December 31, 2018	**$ 980**	**108,063**	**100,016**	**209,059**
Balance at January 1, 2017	$ -	57,559	78,189	135,748
Amortization for the period	980	19,858	19,168	40,006
Reclassification	-	(93)	1,887	1,794
Disposal for the period	-	-	(7,159)	(7,159)
Effect of movements in exchange rates	-	3,358	(964)	2,394
Balance at December 31, 2017	**$ 980**	**80,682**	**91,121**	**172,783**
Carrying amounts:				
Balance at December 31, 2018	**$ -**	**67,041**	**50,040**	**117,081**
Balance at December 31, 2017	**$ -**	**71,173**	**63,998**	**135,171**
Balance at January 1, 2017	**$ -**	**55,896**	**60,460**	**116,356**

Note: The reduction in the current period is due to the negotiation of the trading right payable, wherein the supplier agrees to reduce it.

The Company's intangible assets mentioned above were not pledged as collateral.

(12) Short-term borrowings

The Company short-term borrowing details were as follows:

	December 31, 2018	December 31, 2017
Unsecured borrowings	**$ 1,950,119**	**621,467**
Range of interest rates at year end	**0.40%~ 3.96%**	**1.03%~ 5.60%**

As of December 31, 2018, the unsecured borrowings were from MitraStar and Wuxi MSTC, with MitraStar's being endorsed by Unizyx; As of December 31, 2017, the unsecured borrowings of MitraStar and ZyTR were endorsed by Unizyx and Zyxel, respectively.

(Continued)

(13) Short-term notes and bills payable

	December 31, 2018	December 31, 2017
Commercial papers payable	**$ 200,000**	**200,000**
Range of interest rates at year end	**1.18%**	**0.99%**

The Company's commercial papers payable mentioned above belonged to MitraStar, which were endorsed by Unizyx.

(14) Provision－current

Provisions for warranty and after service cost were as follows:

	2018	2017
Balance at January 1	$ 214,791	174,294
Provision for the period (note)	413,879	120,036
Write-off for the period	(86,299)	(82,240)
Effect of movements in exchanges rates	(1,629)	2,701
Balance at December 31	**$ 540,742**	**214,791**

Note: Quality issue arising from one of the chip suppliers on partial products having abnormal chips was detected in the third quarter of 2018. Thus, after conducting an individual assessment, the Company recognized a provision for warranty amounting to $319,695 for the replacement, wherein the Company expects to be compensated by its supplier for the loss.

The Company’s provision for warranty and after service cost in 2018 and 2017 was for sales of network products. Provision for warranty and after service cost was estimated based on the historical warranty information for similar products or services. The Company expected that most of the cost would occur within 1 or 2 years after sales.

(15) Operating lease

A. Lessee

The Company entered into 20 years renewable operating agreements for land and operating facilities with the Science-based Industrial Park Administration (SIPA) expiring on December 31, 2024, and December 31, 2032, with an annual rental subject to SIPA adjustments. In addition, certain subsidiaries leased their offices. Minimum payments in future years under current operating lease agreements are listed below:

	December 31, 2018	December 31, 2017
Less than 1 year	$ 65,010	61,892
Between 1~ 5 years	142,876	136,545
More than 5 years	81,522	101,655
	$ 289,408	**300,092**

(Continued)

Operating leases recognized in expenses were $91,388 and $87,671 for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the Company rented a piece of land from the SIPA, and the banks had issued the guarantees of $20,208 and $18,856, respectively.

B. Long-term rental prepayment

The Company leases land under operating leases. The leases typically run for a period of 50 years, and all rental amounts are paid in advance. For each of the years 2018 and 2017, rental expenses were $231 and $229, respectively. As of December 31, 2018 and 2017, unamortized long-term rental prepayments were $7,752 and $8,145, respectively.

(16) Employee benefits

A. Defined benefit plans

The Company's reconciliation in the present value of the defined benefit obligations and fair value of plan assets were as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	$ 204,982	220,626
Fair value of plan assets	(289,212)	(283,476)
Net defined benefit assets	**$ (84,230)**	**(62,850)**

Details of recognized liabilities (assets) were as follows:

	December 31, 2018	December 31, 2017
Net defined benefit asset	$ (87,879)	(65,877)
Net defined benefit liabilities	3,649	3,027
	$ (84,230)	**(62,850)**

The Company's domestic subsidiaries make defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

(a) Composition of plan assets

The Company's domestic subsidiaries contribute to pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Fund, Ministry of Labor. Minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

(Continued)

The Company's Bank of Taiwan labor pension reserve account balance amounted to $289,212 at the reporting date. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Fund.

The accumulated employee retirement reserve provided by Zyxel is sufficient to support the payment, therefore, the Company ceased to contribute to its pension fund from September 1, 2017 to August 31, 2019 after obtaining an approval from the authority. Thus, the Company does not expect to make any defined benefit plan contribution to its pension fund in the following year after the reporting date.

(b) Movements in present value change of defined benefit obligation

The movements in present value of the defined benefit obligation of the Company were as follows:

		2018	2017
Defined benefit obligation at January 1	$	220,626	240,224
Current service cost		1,192	1,425
Current interest cost		3,449	3,234
Remeasurements of the net defined benefit assets (liabilities)			
—Return on plan assets (excluding current interest)		5,123	(5,647)
—Actuarial losses arising from changes in financial assumptions		(9,569)	(7,870)
Past service cost-curtailment gains		(6,641)	(2,193)
Paid from pension		(9,198)	(8,547)
Defined benefit obligation at December 31	**$**	**204,982**	**220,626**

(c) Movements of defined benefit plan assets

The movements in present value of the defined benefit plan assets of the Company were as follows:

		2018	2017
Fair value of plan assets at January 1	$	283,476	285,362
Interest income		4,508	3,882
Remeasurements of the net defined benefit assets (liabilities)			
—Return on plan assets (excluding current interest)		7,060	(1,094)
Contribution to the plan		3,366	3,873
Paid from pension plan		(9,198)	(8,547)
Fair value of plan assets at December 31	**$**	**289,212**	**283,476**

(Continued)

(d) Effect of the asset ceiling

There were no effect on the asset ceiling for the years ended 2018 and 2017.

(e) Expenses recognized in profit or loss

The expenses recognized in profit or losses for the Company were as follows:

		2018	2017
Current service cost	$	1,192	1,425
Net interest on the net defined benefit liability (assets)		(1,059)	(648)
Past service cost-curtailment gains		(6,641)	(2,193)
	$	**(6,508)**	**(1,416)**

(f) Actuarial gains and losses recognized in other comprehensive income

The Company's actuarial gains and losses recognized in other comprehensive income were as follows:

		2018	2017
Cumulative amount at January 1	$	(7,183)	(19,606)
Recognized during the period		11,506	12,423
Cumulative amount at December 31	**$**	**4,323**	**(7,183)**

(g) Actuarial assumptions

The following were the Company's significant actuarial assumptions regarding the present value of the defined benefit obligation:

	December 31, 2018	December 31, 2017
Discount rate	1.125%~1.375%	1.375%~1.625%
Future salary increase rate	2.00%~3.00%	3.00%

The Company is expecting a contribution of $3,984 to its defined benefit plans in the following year after the reporting date.

The weighted-average duration of the defined benefit obligation is 16.17 years.

(Continued)

(h) Sensitivity analysis

If there is a change in the actuarial assumptions as of December 31, 2018 and 2017, the impact on the defined benefit obligation would be as follows:

	Impact on present value of defined benefit obligations	
	Increase 0.25%	**Decrease 0.25%**
December 31, 2018		
Discount rate	$ (6,856)	7,164
Future salary increase rate	6,978	(6,716)
December 31, 2017		
Discount rate	$ (7,812)	8,180
Future salary increase rate	7,945	(7,632)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, assuming all other variables remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the consolidated balance sheets.

There were no changes in the method and assumptions used in calculating the sensitivity analysis for 2018 and 2017.

B. Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance, Ministry of Labor (the Bureau of Labor Insurance) in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations thereafter.

The Company' s pension costs under the defined contribution method were $80,767 and $84,511 for 2018 and 2017, respectively. Payment was made to the Bureau of Labor Insurance.

The total pension costs of the Company's overseas subsidiaries under the defined contribution method were $70,121 and $67,411 for 2018 and 2017, respectively.

(17) Income tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable from the year 2018.

(Continued)

A. Income tax expense (benefit)

The amounts of income tax expense (benefit) in the years of 2018 and 2017 were as follows:

		2018	2017
Current tax expense (benefit)			
Current period	$	81,934	62,460
Adjustment for prior periods		(376)	131
10% surtax on undistributed retained earnings		-	30
		81,558	62,621
Origination and reversal of temporary differences		(116,137)	(115,185)
Income tax expense (benefit)	**$**	**(34,579)**	**(52,564)**

The amounts of income tax expense (benefit) recognized in other comprehensive income in the years of 2018 and 2017 were as follows:

	2018	2017
Foreign currency translation differences for foreign operations	**$ (26,494)**	**(4,309)**

Reconciliations of income tax and profit (loss) before income tax expense (benefit) for 2018 and 2017 were as follows:

	2018	2017
Profit (loss) before income tax	$ (635,962)	(623,492)
Income tax using the Unizyx's domestic tax rate	(127,192)	(105,994)
Effect of tax rates in foreign jurisdiction	(15,470)	7,648
Investment gain of foreign subsidiaries recognized using equity method	(11,140)	(6,935)
Prior-year adjustments	(376)	131
Effect of tax rate changes of subsidiary	(44,859)	13,589
Effect of unrecognized deferred tax assets	151,975	46,535
Others	12,483	(7,538)
	$ (34,579)	**(52,564)**

(Continued)

B. Deferred tax assets and liabilities

(a) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2018	December 31, 2017
Loss carryforward	$ 186,074	117,830
Loss on overseas investment accounted for using equity method	130,284	102,716
Allowance for inventory valuation	105,902	49,739
	$ 422,260	**270,285**

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2018 and 2017 were as follows:

Deferred tax assets:

	January 1, 2017	Recognized in income statement	Recognized in other comprehensive income	December 31, 2017	Recognized in income statement	Recognized in other comprehensive income	December 31, 2018
Allowance for inventory obsolescence	$ 96,621	3,371	-	99,992	(27,551)	-	72,441
Provision for contingent service cost	10,937	5,495	-	16,432	80,499	-	96,931
Loss carryforward	39,670	72,624	-	112,294	57,525	-	169,819
Foreign currency translation differences for foreign operations	38,299	-	737	39,036	-	24,484	63,520
Unrealized profit on inter-company sales	28,562	41,558	-	70,120	10,577	-	80,697
Loss on overseas investment accounted for using equity method	7,119	(30)	-	7,089	7,264	-	14,353
Temporary difference of subsidiary	41,383	3,444	-	44,827	2,210	-	47,037
Others	55,563	(10,584)	-	44,979	46,669	-	91,648
	$ 318,154	**115,878**	**737**	**434,769**	**177,193**	**24,484**	**636,446**

(Continued)

Deferred tax liabilities:

	January 1, 2017	Recognized in income statement	Recognized in other comprehensive income	December 31, 2017	Recognized in income statement	Recognized in other comprehensive income	December 31, 2018
Gain on overseas investment accounted for using equity method	$ (197,597)	(3,049)	-	(200,646)	(31,816)	-	(232,462)
Prepaid pension cost	(15,882)	(532)	-	(16,414)	(3,459)	-	(19,873)
Foreign currency translation differences for foreign operations	(5,582)	-	3,572	(2,010)	-	2,010	-
Unrealized gain on foreign currency exchange	(4,359)	4,359	-	-	(847)	-	(847)
Others	(541)	(1,471)	-	(2,012)	(24,934)	-	(26,946)
	$ (223,961)	**(693)**	**3,572**	**(221,082)**	**(61,056)**	**2,010**	**(280,128)**

According to the R.O.C. Income Tax Act, the previous 10 years' losses of the Company's domestic subsidiaries as assessed by the tax authorities can offset the current year's net income for income tax purposes.

As of December 31, 2018, the unused loss carryforwards and related expiration years of the Company's domestic subsidiaries were as follows:

Year of loss	Expiration year	Unused loss carryforward
2011 (assessed)	2021	2,638
2012 (assessed)	2022	2,710
2013 (assessed)	2023	4,277
2015 (assessed)	2025	508,566
2016 (assessed and filed)	2026	4,518
2017 (filed)	2027	270,011
2018 (estimated)	2028	424,980
		$ 1,217,700

In accordance with the tax law of each region where the subsidiaries of the Company are located, losses on foreign subsidiaries as assessed by the tax authorities can be carried forward to offset the future years' taxable profits. As of December 31, 2018, the tax effects of the unused loss on carryforwards amounted to $112,353.

C. Examination and approval

As of the December 31, 2018, the income tax returns of Unizyx, Zyxel, and MitraStar had been examined and assessed by the tax authority through year 2015.

(Continued)

(18) Capital and other equity

A. Common stock

On August 16, 2010, Unizyx was set up through Zyxel share swap, and the total share capital was $5,170,483. As of December 31, 2018 and 2017, Unizyx's authorized common stock amounted to $7,000,000, of which $520,000 was for use as employee stock options, convertible preferred stock, or convertible corporate bonds. The issued common stock amounted to $4,411,773, with par value of $10 TWD per share.

B. Capital surplus

The details were as follows:

	December 31, 2018	December 31, 2017
Additional paid-in capital	$ 3,489,819	3,489,819
Treasury share transactions	204,503	204,503
Employee share options	29,494	26,251
Changes in equities of subsidiaries under equity method	1,388	-
	$ 3,725,204	**3,720,573**

(a) When Unizyx was set up through Zyxel's share swap on August 16, 2010, the amount of net assets in excess of the par value calculated by the share swap method was $4,089,976, which was recorded as additional paid-in capital.

(b) According to Article 30 of the Business Mergers and Acquisitions Act, the unappropriated retained earnings of a company that has a share swap with other companies that are transferred as additional paid-in capital of the holding company are not affected by the restriction of Article 241(i) of the Company Act. According to Article 47 of the Financial Holding Company Act and Ruling No. 0910003413, if the additional paid-in capital due to the share swap is from previous unappropriated earnings of subsidiaries, it can be appropriated as cash dividends or capitalized in the current year; also the capitalization ratio is not restricted by Article 8 of the Securities and Exchange Act Enforcement Rules. Further, according to Ruling No. 0910016280, since this additional paid-in capital is not generated from the holding company's operations, there is no remuneration of the board of directors and bonus to employees. As of December 31, 2018 and 2017, the additional paid-in capital generated from Zyxel's unappropriated earnings before the share swap was $1,139,082.

(c) In accordance with the ROC Company Act, realized capital surplus can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital surplus include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be reclassified under share capital shall not exceed 10 % of the actual share capital amount.

(Continued)

C. Retained earnings

(a) Legal reserve

In accordance with the Company Act, 10 % of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company generated profit for the year, the distribution of the legal reserve, either by new shares or by cash, shall be decided at the shareholders' meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 % of the paid-in capital.

(b) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special reserve during earnings distribution. The amount to be reclassified should be equal to the current-period total net debit balance of other equity components of the shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special reserve (and does not qualify for earnings distribution) to account for cumulative changes to other equity components of the shareholders' equity pertaining to prior periods. Any subsequent reversals pertaining to the net debit balance of other equity components of the shareholders' equity shall qualify for additional distributions. On June 15, 2017, Unizyx recognized a special reserve amounting to $200,347 for the debit balance of other equity components of its shareholders' equity.

(c) Distribution of earnings

Pursuant to regulations promulgated by the FSC, a special reserve equivalent to the total amount of items that are accounted for as deductions from stockholders' equity shall be set aside from current earnings, and not distributed. The special reserve shall be made available for appropriation to the extent of reversal of deductions from stockholders' equity in subsequent periods.

According to the articles of incorporation, in years of earnings, Unizyx has to offset any accumulated deficit, pay income tax, and appropriate 10% of the balance as a legal reserve before distribution of earnings, unless the amount in the legal reserve is already equal to or greater than the total paid-in capital. Thereafter, an amount shall be set aside or reversed as a special reserve in accordance with related laws, regulations, or provisions of the competent authorities. Distribution of the remaining profit after setting aside the abovementioned amounts, together with the balance of the unappropriated retained earnings of the previous year, shall be proposed by the board of directors to be approved at the shareholders' meeting.

(Continued)

The dividend policy of Unizyx is based on Unizyx's profit condition, future operating development, and assurance of stockholders' equity. Considering the common stock, capital structure, operating status, and earnings, Unizyx may distribute dividends in the form proposed by the board of directors, including stock issuance based on retained earnings and/or cash dividends. The dividend distribution must be through a resolution passed by the board of directors that complies with Unizyx's balanced and stable dividend policy.

The appropriated earnings will preferably be distributed in the form of cash dividends, with distribution of stock dividends being the other alternative. Distribution of stock dividends should be no more than 50% of total dividends.

On June 15, 2017, the distribution of cash dividends per share of $0.20 was approved by Unizyx's shareholders during their meeting. The earnings distribution is consistent with the resolution approved by Unizyx's board of directors.

On June 13, 2018 and March 14, 2019, the general meeting of shareholders and board of directors' meeting of Unizyx approved a plan to offset the operating losses for the years of 2017 and 2018, respectively. The plan to offset the 2018 operating loss will need to be approved in the general meeting of shareholders. The information will be available on the Market Observation Post System website.

D. Treasury stock

As of December 31, 2018 and 2017, Unizyx's shares held by Zychamp amounted to 9,391 thousand shares, and original costs were both $120,861; the market values were $117,857 and $143,213 , respectively.

E. Other equity

(a) Exchange differences on translation of foreign financial statements

	2018	2017
Balance at January 1	$ (221,386)	(200,347)
Foreign exchange differences (net of tax)	(73,307)	(21,039)
Balance at December 31	**$ (294,693)**	**(221,386)**

(b) Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

	2018
Balance at January 1	$ -
Effects of retrospective application of new accounting standards	(19,141)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(21,452)
Balance at December 31	**$ (40,593)**

(Continued)

(19) Share-based payment

Unizyx registered and issued 19,018 thousand units of employee stock options in November 2018. Each unit can be purchased at one share of Unizyx. The duration of the plan is 5 years, and the plan was certified by the FSC. As of December 31, 2018, the information related to the employee stock option rights was as follows:

Type	Authorization date	Grant date	Issued units (in thousands)	Grant period	Exercise price per share (TWD)	Adjusted exercise price per share (TWD)
Employee stock options in 2018	Nov. 20, 2018	Nov. 21, 2018	19,018	Service periods between 2 to 3 years	12.2	12.2

The estimated fair value of the options granted ranges from $2.1~$3.1 (TWD) at the date of grant using the Black-Scholes option pricing model. Unizyx granted to the Company's employees 19,018 thousand units of employee stock options, and the Company recognized compensation cost amounting to $3,243 in the year of 2018. Weighted-average assumptions were as follows:

Expected dividend yield	3.08%
Expected volatility	36.108%~44.619%
Risk-free interest rate	0.608%~0.688%
Expected life	2~3 years

Information related to employee stock options was as follows:

	2018	
Employee stock options	Options (in thousands)	Weighted-average exercise price (TWD)
Outstanding at beginning of year	-	$ -
Granted	19,018	12.20
Exercised	-	-
Forfeited	(340)	-
Outstanding at end of year	**18,678**	-
Exercisable at end of year	**-**	

As of 31 December, 2018 the weighted-average remaining contractual life for outstanding option awards was 4.83 years.

(Continued)

(20) Earnings per share

Basic earnings per share and diluted earnings per share

	2018	2017
Net income (loss) attributable to ordinary shareholders of Unizyx	**$ (596,490)**	**(569,752)**
Weighted-average number of shares outstanding during the year (in thousands of shares)	**431,786**	**431,786**
Basic earnings per share (TWD)	**$ (1.38)**	**(1.32)**
Diluted earnings per share (TWD)	**$ (1.38)**	**(1.32)**

The diluted earnings per share was the same as basic earnings per share due to the anti-dilutive effect of the net loss incurred for the years ended December 31, 2018 and 2017.

(21) Revenue from contracts with customers

A. The details of revenue were as follows:

	2018			
	Brand	**Product**	**Investment**	**Total**
Primary geographical markets:				
United States	$ 3,513,277	1,279,044	-	4,792,321
China	29,569	2,733,677	-	2,763,246
Brazil	504,663	1,726,279	-	2,230,942
Other countries	7,581,277	4,848,341	6,600	12,436,218
	$ 11,628,786	**10,587,341**	**6,600**	**22,222,727**
Major products lines:				
Broadband	$ 7,430,594	9,600,375	-	17,030,969
Business	2,836,977	106,520	-	2,943,497
Others	1,361,215	880,446	6,600	2,248,261
	$ 11,628,786	**10,587,341**	**6,600**	**22,222,727**

For details on revenue for the year ended December 31, 2017, please refer to note 6(22).

B. Contracts liabilities

	December 31, 2018	January 1, 2018
Contracts liabilities	**$ 259,836**	**60,784**

(Continued)

The change in contract liabilities is primarily related to the advance consideration received from customers for the sales contracts, for which revenue is recognized when products are delivered to customers. The Company recognized revenue from contract liabilities amounting to $54,267.

(22) Operating revenues

Operating revenues of the Company were as follows:

		2017
Sale of goods	$	18,948,436
Services provided		193,008
	$	**19,141,444**

For details on revenue for the year ended December 31, 2018, please refer to note 6(21).

(23) Non-operating income and expenses

A. Other income

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

		2018	2017
Recovery of written-off accounts receivable	$	79,205	-
Compensation income		92,262	-
Interest income		18,738	19,566
Grant revenues		-	12,240
Rental income		3,794	3,923
	$	**193,999**	**35,729**

B. Other gains and losses

Other gains and losses of the Company were as follows:

		2018	2017
Gain (loss) on financial assets (liabilities) measured at fair value through profit or loss (note 6(2))	$	37,180	(44,621)
Gain (loss) on disposal of property, plant and equipment		15	6,350
Gain on disposal of investment(notes 6(5) and(9))		-	2,338
Others		29,303	16,633
	$	**66,498**	**(19,300)**

(Continued)

(24) Employee compensation and directors' and supervisors' remuneration

In accordance with Unizyx' s articles of incorporation, Unizyx shall accrue its remuneration to employees and directors based on a certain percentage of the current-year' s profit (profit before income tax, excluding remuneration to employees and directors) less, accumulated deficit as follows: not less than 0.01% as employee remuneration and no more than 2% as directors' and supervisors' remuneration. The aforementioned employee remuneration will be distributed in cash or stock dividends to employees who meet certain requirements of Unizyx and its affiliates. For the years ended December 31, 2018 and 2017, Unizyx incurred an operating loss; therefore, no remuneration to employees and directors and supervisors was accrued for the years then ended.

(25) Financial instruments

A. Credit risk

(a) Credit risk exposures

As of December 31, 2018 and 2017, the Company' s maximum exposure to credit risk was mainly from the carrying amount of financial assets amounting to $9,042,012 and $8,169,317, respectively.

(b) Disclosures of the concentration of credit risk

The Company's potential credit risk is derived primarily from deposits with banks, cash equivalents, financial assets measured at amortized cost, notes receivable and accounts receivable (including related parties), etc. The Company maintains its cash and cash equivalents and financial assets measured at amortized cost in various creditworthy financial institutions. Credit risk exposure to each financial institution is controlled by the Company. As a result, the Company believes that there is no significant concentration of credit risk of cash, cash equivalents and financial assets.

The main customers of the Company are multinational companies within the network communication industry or companies with good credit ratings. From time to time, the Company monitors customers' credit condition, and hence has not encountered any significant loss due to credit risk.

The Company sets a loss allowance for expected credit losses to reflect the estimated loss on accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(Continued)

(c) Receivables and debt securities

For credit risk exposure of note and trade receivables, please refer to note 6(6).

Financial assets at amortized cost includes investments in time deposits and pledged time deposits (previously classified as other financial assets on December 31, 2017). For the details on investments and loss allowance as of December 31, 2017, please refer to notes 6(3), (6) and 8. All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(7).

B. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Book value	Cash flow of contract	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
December 31, 2018							
Non-derivative financial liabilities							
Short-term borrowings	$ 1,950,119	(1,965,360)	(1,731,061)	(234,299)	-	-	-
Short-term notes and bills payable	200,000	(200,000)	(200,000)	-	-	-	-
Notes and accounts payable	5,097,037	(5,097,037)	(5,097,037)	-	-	-	-
Accounts Payable－related parties	6,333	(6,333)	(6,333)	-	-	-	-
Royalty payable	204,318	(204,318)	(204,318)	-	-	-	-
Other accounts payable－related parties	5,072	(5,072)	(5,072)	-	-	-	-
Guarantee deposits received	899	(899)	-	-	(899)	-	-
	$ 7,463,778	**(7,479,019)**	**(7,243,821)**	**(234,299)**	**(899)**	**-**	**-**
December 31, 2017							
Non-derivative financial liabilities							
Short-term borrowings	$ 621,467	(625,124)	(625,124)	-	-	-	-
Short-term notes and bills payable	200,000	(200,000)	(200,000)	-	-	-	-
Notes and accounts payable	3,565,010	(3,565,010)	(3,565,010)	-	-	-	-
Accounts Payable－related parties	840	(840)	(840)	-	-	-	-
Royalty payable	221,871	(221,871)	(221,871)	-	-	-	-
Guarantee deposits received	709	(709)	-	-	(709)	-	-
Derivative financial liabilities							
Forward exchange contract:							
Outflows	2,933	(2,971)	(2,971)	-	-	-	-
	$ 4,612,830	**(4,616,525)**	**(4,615,816)**	**-**	**(709)**	**-**	**-**

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(Continued)

C. Currency risk

(a) Exposure to currency risk

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

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial Assets						
Monetary items						
USD	$ 76,412	30.72	2,347,377	85,731	29.76	2,551,355
Non-Monetary items						
EUR	-	-	-	11,700	35.57	note
Financial Liabilities						
Monetary items						
USD	129,360	30.72	3,973,939	104,634	29.76	3,113,908
Non-Monetary items						
EUR	-	-	-	15,100	35.57	note

Note: Please refer to note 6(2) for the disclosure on the derivative of financial assets (forward exchange) measured at fair value.

(b) Sensitivity analysis

The Company' s exposure to foreign currency risk arises from the foreign currency exchange gains and losses on cash and cash equivalents, notes and accounts receivable (including related parties), other receivables (including related parties), short-term borrowings, and trade payables that are denominated in foreign currency. 5% depreciation or appreciation of the TWD against the above foreign currency at December 31, 2018 and 2017, would have increased (decreased) the net income as follows. (This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant.)

	2018	2017
Depreciation	**$ 81,328**	**28,103**
Appreciation	**$ (81,328)**	**(28,103)**

(c) Exchange gains and losses of functional currency

For the years ended December 31, 2018 and 2017, the foreign exchange losses (including realized and unrealized) were $81,533 and $65,144, respectively. It is impractical to disclose the foreign exchange losses by each significant foreign currency due to the variety of the functional currencies of the Company.

(Continued)

D. Interest rate analysis

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The Company's internal management was reported with the exposure to changes in interest rates of 0.25%, which is considered by management to be a reasonable change of interest rate.

If the interest rate had increased or decreased by 0.25%, the Company's net loss before tax would have increased or decreased by $1,616 and decreased or increased by $2,792 for the years ended December 31, 2018 and 2017, respectively, with all other variable factors remaining constant. This is mainly due to floating interest rates of the Company's cash and cash equivalents and short-term borrowings.

E. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income is measured on a recurring basis.

The Company' s carrying amount and fair value of financial assets and liabilities (including information on the fair value hierarchy, but excluding financial instruments whose fair values approximate their carrying amounts and equity investments which cannot be estimated reliably in an active market) were as follows:

	December 31, 2018				
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost:					
Cash and cash equivalents	$ 1,500,532	-	-	-	-
Financial assets at amortized cost－current	364,584	-	-	-	-
Notes and accounts receivable, net	7,004,816	-	-	-	-
Accounts receivable－related parties, net	3,304	-	-	-	-
Other accounts receivable－related parties, net	1,732	-	-	-	-
Other financial assets－current	65,584	-	-	-	-
Financial assets at amortized cost－non-current	24,661	-	-	-	-
Refundable deposits	76,799	-	-	-	-
	9,042,012	-	-	-	-

(Continued)

	December 31, 2018				
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss－current	1,854	1,854	-	-	1,854
Financial assets at fair value through other comprehensive income－non-current	35,482	-	-	35,482	35,482
	$ 9,079,348	**1,854**	**-**	**35,482**	**37,336**
Financial liabilities at amortized cost:					
Short-term borrowings	$ 1,950,119	-	-	-	-
Short-term notes and bills payable	200,000	-	-	-	-
Notes and accounts payable	5,097,037	-	-	-	-
Accounts payable－related parties	6,333	-	-	-	-
Royalty payable	204,318	-	-	-	-
Other accounts payable－related parties	5,072	-	-	-	-
Guarantee deposits received	899	-	-	-	-
	$ 7,463,778	**-**	**-**	**-**	**-**

	December 31, 2017				
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Loans and receivables:					
Cash and cash equivalents	$ 3,181,431	-	-	-	-
Notes and accounts receivable, net	4,666,541	-	-	-	-
Accounts receivable－related parties, net	1,063	-	-	-	-
Other accounts receivable－related parties, net	217,317	-	-	-	-
Other financial assets－current	27,945	-	-	-	-
Refundable deposits	42,483	-	-	-	-
Other financial assets－non-current	32,537	-	-	-	-
	8,169,317	-	-	-	-

(Continued)

	December 31, 2017				
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss－current	4,587	2,199	2,388	-	4,587
Financial assets carried at cost－non-current	30,373	-	-	-	-
	$ 8,204,277	**2,199**	**2,388**	**-**	**4,587**
Financial liabilities at amortized cost:					
Short-term borrowings	$ 621,467	-	-	-	-
Short-term notes and bills payable	200,000	-	-	-	-
Notes and accounts payable	3,565,010	-	-	-	-
Accounts payable－related parties	840	-	-	-	-
Royalty payable	221,871	-	-	-	-
Guarantee deposits received	709	-	-	-	-
	4,609,897	-	-	-	-
Financial liabilities at fair value through profit or loss－current	2,933	-	2,933	-	2,933
	$ 4,612,830	**-**	**2,933**	**-**	**2,933**

(b) Valuation techniques for financial instruments measured at fair value

(i) The beneficiary certificates held by the Company are measured at fair value according to standard provision and conditions; the fair value is measured using the quoted price in an active market.

(ii) Derivative financial instruments – forward contracts held by the Company are measured by using the current forward foreign exchange rates.

(iii) Financial instruments without an active market held by the Company are measured at fair value according to the market approach; the fair value is assessed by using the price-equity ratio and price-earnings ratio of the competitors.

(c) There is no transfer between the levels for the years ended December 31, 2018 and 2017.

(Continued)

(d) Reconciliation of Level 3 fair values

	2018
Financial assets at fair value through other comprehensive income－equity investment without an active market	
Balance on January 1, 2018	$ -
Adjustment on initial application of IFRS 9	30,373
Total gains or losses recognized in other comprehensive income	(21,452)
Addition for the period	26,561
Balance on December 31, 2018	**$ 35,482**

(e) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Company's financial instruments that use Level 3 inputs to measure the fair value include financial assets at fair value through other comprehensive income– equity investments.

The Company classified the equity investments without an active market as recurring level 3 fair values in the value hierarchy due to the use of significant unobservable inputs. The significant unobservable inputs of the equity investments without an active market are independent, therefore, there is no correlation between them.

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income – equity investment without an active market	Market approach	・Net price ratio multiplier (December 31, 2018：0.70~1.44) ・Liquidity discount (December 31, 2018：30%)	・The higher the price-equity ratio, the higher the fair value ・The higher the discount for lack of marketability, the lower the fair value

(26) Financial risk management

A. Overview

The Company is exposed to the following risks due to usage of financial instruments:

(a) Credit risk
(b) Liquidity risk
(c) Market risk

(Continued)

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

B. Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The board is responsible for developing and monitoring the Company's risk management policies, and meets regularly for discussions.

The Company' s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company' s board of directors oversees how management monitors compliance with the Company' s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The board of directors is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the board of directors.

C. Credit risk

Please refer to note 6(25).

As of December 31, 2018 and 2017, the Company had provided guarantees for its 100%-owned subsidiaries.

D. Liquidity risk

There is no liquidity risk of being unable to raise capital to settle contract obligations since the Company has sufficient capital and working capital to fulfill contract obligations. As there is no open market for the financial assets at fair value through other comprehensive income (financial assets carried at cost); hence, they are subject to liquidity risk.

E. Market risk

The Company's purchases and sales are mainly denominated in foreign currency. As a result, current and future cash flows of foreign currency assets and liabilities are exposed to the risk of foreign currency exchange rate volatility. Therefore, the Company engaged in derivative financial instrument transactions as economic hedges against potential changes in assets or liabilities held in foreign currencies. Gains and losses arising from changes in exchange rates are offset by those of the hedged item. As a result, the market risk is low.

(Continued)

Beneficiary certificates held by the Company are presented under financial assets measured at fair value. Such assets are measured at fair value, and the Company is exposed to market price volatility.

(a) Currency risk

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Company' s entities, primarily the TWD, but also including the US dollar (USD), Euro (Euro), and Chinese Yuan (CNY). The currencies used in these transactions are the TWD, Euro, USD and CNY.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(b) Interest rate risk

The Company holds variable-rate financial assets and liabilities. Please refer to note 6(25) for interest rate risk.

(27) Capital management

The board' s policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Capital consists of share capital, capital surplus, retained earnings, and non-controlling interests of the Company. The board of directors monitors the return on capital as well as the level of dividends to ordinary stockholders.

The Company's debt-to-equity ratios at the reporting date were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	$ 9,812,938	6,425,907
Less: cash and cash equivalents	(1,500,532)	(3,181,431)
Net debt	**$ 8,312,406**	**3,244,476**
Total equity (adjusted capital)	**$ 7,306,334**	**7,983,367**
Debt-to-adjusted-capital ratio	**113.77%**	**40.64%**

The debit-to-adjusted-capital ratio had increased on December 31, 2018 due to the significant increase in the operating revenue of the Company in the fourth quarter of the year, resulting in the increase in its accounts receivable, short-term borrowings, and accounts payable incurred from purchasing inventories.

As of December 31, 2018, the Company has not changed its capital management method.

(Continued)

(28) Financing activities

Reconciliations of liabilities arising from financing activities were as follows:

	Short-term borrowings	Short-term notes and bills payable	Guarantee deposits received	Total
Balance at January 1, 2018	$ 621,467	200,000	709	822,176
Cash flow				
Increase in borrowings	10,126,024	1,730,000	-	11,856,024
Repayment of borrowings	(8,758,409)	(1,730,000)	-	(10,488,409)
Increase in guarantee deposits received	-	-	195	195
Non-cash changes				
Foreign exchange movement	(38,963)	-	(5)	(38,968)
Balance at December 31, 2018	**$ 1,950,119**	**200,000**	**899**	**2,151,018**

7. Related-party transactions

(1) Names and relationship with related parties

The followings are related parties that have had transactions with the Company during the periods covered in the consolidated financial statements:

Name of related party	Relationship with the Company
ZYXEL Foundation	The chairman is the same as Unizyx's
LIONIC Corp.	The director is the chairman of Unizyx
ZyFLEX Technologies Inc. (ZyFlex)	ZYXEL Foundation's subsidiary
Ecowork	The Company's associate before November 2017, and Company's subsidiary after November 2017
ShareTech Information Co., Ltd. (ShareTech)	The Company's associate
ZQAM Communications Corporation (ZQAM)	The Company's associate
Beijing Huaqinworld Technology Co., Ltd. (Beijing Huaqinworld)	The Company's associate

(Continued)

(2) Significant related-party transactions

A. Sales of goods

(a) The significant transactions with related parties were as follows:

Related Party Category	Sales		Accounts receivable	
	2018	2017	December 31, 2018	December 31, 2017
Other related parties	$ 8,962	4,176	2,843	927
Associates	736	175	461	136
	$ 9,698	**4,351**	**3,304**	**1,063**

There is no significant difference between the sales price of the Company for associates and for third parties. The terms of payment are 60 to 90 days, and the credit terms for third parties are 30 to 180 days after delivery. Receivables from related parties were not pledged as collateral, and were assessed not to provide any loss allowance provision.

(b) The details of the Company's other receivables－related parties were as follows:

Related Party Category	December 31, 2018	December 31, 2017
Associate－Beijing Huaqinworld	$ -	256,214
Less: Allowance for uncollectible accounts	-	(40,629)
	$ -	**215,585**

The Company filed an application to No.1 Intermediate People's Court of Shanghai Municipality to claim its creditor's right and the plant of Wuxi MSTC was pledged as collateral. On March 24, 2017, the Court enforced to seal up and seize other related properties of the associate, as well as to freeze its bank account with a duration of one year. Therefore, the Company recognized the receivables as other receivables－related parties since the first quarter of 2017. On March 22, 2018, the court decided to freeze its bank account for another year.

No. 1 Intermediate People's Court of Shanghai Municipality had issued its ruling affirming the abovementioned case as a dispute over the sales contract. However, the associate refused to comply and appealed to the Higher People's Court of Shanghai Municipality. On August 3, 2017, the Higher People's Court of Shanghai Municipality determined that this was a dispute arising from sales contracts instead of a dispute arising from product quality issue. Therefore, the case was handed over by No. 1 Intermediate People's Court of Shanghai Municipality. In addition, the Company, as a shareholder of the associate, initiated a lawsuit against its largest debtor, alleging a dispute arising from the sales contract. The case was reviewed by the Intermediate People's Court of Guangzhou Municipality, Guangdong Province on September 13, 2017.

(Continued)

Based on the opinion of the appointed lawyer on the abovementioned lawsuit in 2017, the Company recognized an impairment loss amounting to $40,463 after deducting the amount in the bank accounts which had been frozen by No. 1 Intermediate People's Court of Shanghai Municipality from the amount of receivables.

On August 29, 2018, the Higher People's Court of Shanghai Municipality ruled in favor of the Company. In December 2018, the frozen bank account of the associate amounting to $146,006 was transferred to the Company and the collateral of Wuxi MSTC's plant was released at the same time.

Furthermore, due to the lengthy duration of the trial and the uncertainty that the accounts receivable could be collected, the Company recognized an impairment loss amounting to $65,088 in 2018. The movements of impairment loss were as follows:

	Individual assessment of impairment loss	
	2018	**2017**
Balance at January 1	$ 40,629	-
Impairment loss recognized	65,088	40,463
Amounts written off	(104,870)	-
Effect of movements in exchange rates	(847)	166
Ending balance at December 31	**$ -**	**40,629**

B. Purchase

The significant transactions with related parties were as follows:

	Purchase		Accounts payable	
Related Party Category	**2018**	**2017**	**December 31, 2018**	**December 31, 2017**
Other related parties	**$ 23,525**	**22,050**	**6,333**	**840**

The payment term for purchase from related parties were 90 days after purchase. The payment terms with related parties were not materially different from those with third parties.

C. Service and other revenue

(a) The revenues on services related to finance, information service and other services with affiliated company were as follows:

Related Party Category	**2018**	**2017**
Other related parties	$ 6,609	6,600
Associates	668	7,390
	$ 7,277	**13,990**

(Continued)

(b) Details of other account receivables of the Company were as follows:

Related Party Category	December 31, 2018	December 31, 2017
Other related parties	**$ 1,732**	**1,732**

D. Lease

The Company leased portion of its office to its related parties. The information on the collection of rental income was as follows:

Related Party Category	Leased Object	2018	2017
Associates	Office	**$ 816**	**734**

For the years ended December 31, 2018 and 2017, the above amounts have been received.

E. Outsourced service expense and other expense

(a) The expenditures on developing products related to information service, cloud platform and programing with affiliated company were as follows:

Related Party Category	2018	2017
Other related parties	$ 6,197	12,020
Associates	1,672	6,851
	$ 7,869	**18,871**

(b) Details of other account payable of the Company were as follows:

Related Party Category	December 31, 2018	December 31, 2017
Other related parties	**$ 5,072**	**-**

(c) Details of prepayment of the Company were as follows (reported at other current assets):

Related Party Category	December 31, 2018	December 31, 2017
Other related parties	**$ 9,000**	**-**

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	2018	2017
Short-term employee benefits	$ 30,000	38,665
Post-employment benefits	611	739
Share-based payment compensation	413	-
	$ 31,024	**39,404**

Please refer to note 6(19) for further explanations related to share-based payment transactions.

(Continued)

8. Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Purpose of pledge	December 31, 2018	December 31, 2017
Property, plant and equipment	Guarantee of mortgage action	$ -	383,460
Financial assets at amortized cost–non-current/Other financial assets–non-current	Contract fulfillment and warranty guarantee	24,661	32,537
		$ 24,661	**415,997**

9. Commitments and contingencies

(1) Significant commitments

A. The amounts of notes pledged at the bank by Zyxel and MitraStar for financing purposes were as follows:

December 31, 2018	December 31, 2017
$ 3,717,875	**3,634,480**

B. In order to bid on the project of EGYPTAN ARMAMENT AUTHORITY, Zyxel obtained a letter of performance guarantee from the bank. The amounts were as follows:

(in thousands USD)

December 31, 2018	December 31, 2017
$ 411	**411**

C. The amounts of Zyxel's outstanding letters of credit to facilitate Zyxel's purchases were as follows:

(in thousands foreign currency)

	December 31, 2018	December 31, 2017
USD	**$ 624**	**192**

D. The unpaid amounts of Zyxel's construction, plant and equipment that have been signed or ordered were as follows:

December 31, 2018	December 31, 2017
$ 2,010	**5,410**

(Continued)

E. In order to bid on projects, ZyTPE submitted a performance guarantee letter. The amounts were as follows:

	December 31, 2018	December 31, 2017
$	9,007	15,415

F. In order to obtain the bid of TTNET A.S., ZyTR requested a bank to issue a guarantee letter. The amounts were as follows:

(in thousands USD)

	December 31, 2018	December 31, 2017
$	3,952	3,766

G. The Company signed technology licensing agreements with certain companies and was required to pay licensing fees in proportion to sales revenue of the licensed products under the agreements.

H. The Company signed agency service agreements with certain companies and was required to pay commission fees in proportion to commissioned sales under the agreements.

(2) Contingencies liabilities

A. In 2013, TQDelta, LLC asserted that Zyxel's products infringed certain patents of TQDelta, LLC and filed a lawsuit against Zyxel and Zyxel's subsidiary, ZyUSA. Zyxel has engaged a lawyer to defend the case. However, Zyxel believes that the abovementioned event will not have any significant effect on its current operations.

B. In July 2017, TQDelta, LLC asserted that Zyxel's products infringed its certain patents and filed a lawsuit against Zyxel and Zyxel's subsidiaries, ZyAS and ZyUK. On March 11, 2019, the court ruled that each party won one patent infringements lawsuit brought by TQDelta, LLC. However, Zyxel disagreed with the court's decision and will appeal against the result of the verdict. Hence, it has engaged a lawyer to defend its case. However, Zyxel believes that the abovementioned event will not have any significant effect on its current operations.

10. Losses Due to Major Disasters:None

11. Subsequent Events

As approved by Unizyx's and Zyxel's board of directors' meeting on February 26, 2019, in order to improve market competitiveness and increase the overall efficiency of the Company, Zyxel Networks Corporation(ZNet) will be spun off from Zyxel to become a 100%-held subsidiary of Unizyx on April 1, 2019. Zyxel will spin off its channel business related net operating assets to ZNet and exchange one share of ZNet's common stock valued at TWD $10 per share for each share of Zyxel' s stock valued at TWD $16.56 per share. Unizyx acquired 72,450 thousand shares of ZNet's new issued common stock.

(Continued)

12. Other

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function / By item	2018			2017		
	Classified as cost of goods sold	Classified as operating expenses	Total	Classified as cost of goods sold	Classified as operating expenses	Total
Employee benefits						
Salaries	270,271	2,456,074	2,726,345	292,294	2,541,340	2,833,634
Labor and health insurance	29,939	235,064	265,003	30,983	236,069	267,052
Pension	26,544	117,836	144,380	29,327	121,179	150,506
Remuneration of directors	-	1,964	1,964	-	-	-
Others	14,527	98,588	113,115	14,527	99,493	114,020
Depreciation	107,283	147,025	254,308	113,523	141,627	255,150
Amortization	2,818	77,461	80,279	2,461	50,717	53,178

13. Other disclosures:

(a) Information on significant transactions

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

(i) Loans to other parties: Please refer to Table 1.

(ii) Guarantees and endorsements for other parties: Please refer to Table 2.

(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures): Please refer to Table 3.

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock:None

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock:None

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock:None

(Continued)

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$300 million or 20% of the capital stock: Please refer to Table 4.

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock: Please refer to Table 5.

(ix) Trading in derivative instruments:None

(x) Business relationships and significant intercompany transactions: Please refer to Table 6.

(b) Information on investees (excluding information on investees in Mainland China): Please refer to Table 7.

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information: Please refer to Table 8.

(ii) Limitation on investment in Mainland China: Please refer to Table 8.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of the consolidated financial statements, were disclosed in the "Information on significant transactions".

14. Segment information

(1) General information and industrial information

There are three segments that need to be reported: the brand business unit, the product business unit, and the investment unit. The brand business unit uses the brand name " Zyxel" to provide telecommunications service providers, enterprise users, and home users complete broadband access solutions and to provide customers instant and local services. The product business unit develops products for customers and logistics services that focus on the manufacturing of wired and wireless broadband communications network, the new generation of internet, multimedia, and digital home applications in areas such as intellectual life. The investment unit is for general investment business.

Unizyx had allocated income tax expense (benefit) or non-recurring gains and losses to segments that need to be reported. In addition, all the gains and losses of the segments that need to be reported included significant non-cash items except depreciation and amortization. The reported amounts accorded with the reports used by the chief operating decision maker. The accounting principles of the operating units are not significantly different from the significant accounting policies in note 4. The Company's operating segments' profits and losses are measured based on net income and loss after tax, which also serves as the basis for assessing the segments' performance.

(Continued)

(2) Segment information

The Company's operating segment information and reconciliations are as follows:

	2018				
	Brand	**Products**	**Investment**	**Reconciliation and elimination**	**Total**
External revenue	$ 11,628,786	10,587,341	6,600	-	22,222,727
Inter-segment revenue	6,961	3,478,348	146,861	(3,632,170)	-
Total revenue	**$ 11,635,747**	**14,065,689**	**153,461**	**(3,632,170)**	**22,222,727**
Reportable segment operating income (loss)	$ (242,622)	(548,375)	46,895	(14,690)	(758,792)
Non-operating income and expenses	96,859	52,366	(26,392)	(3)	122,830
Income (loss) before income taxes	**$ (145,763)**	**(496,009)**	**20,503**	**(14,693)**	**(635,962)**
Depreciation and amortization	**$ 121,133**	**212,938**	**516**	**-**	**334,587**
Reportable segment assets	**$ 9,368,196**	**9,139,874**	**7,239,590**	**(8,673,973)**	17,073,687
Investment accounted for using equity method					45,585
Total assets					**$ 17,119,272**

	2017				
	Brand	**Products**	**Investment**	**Reconciliation and elimination**	**Total**
External revenue	$ 11,511,491	7,623,353	6,600	-	19,141,444
Inter-segment revenue	1,127	4,212,603	150,470	(4,364,200)	-
Total revenue	**$ 11,512,618**	**11,835,956**	**157,070**	**(4,364,200)**	**19,141,444**
Reportable segment operating income (loss)	$ (90,760)	(549,912)	46,976	63,359	(530,337)
Non-operating income and expenses	(27,337)	(45,174)	(19,101)	(1,938)	(93,550)
Income (loss) before income tax	**$ (118,097)**	**(595,086)**	**27,875**	**61,421**	**(623,887)**
Depreciation and amortization	**$ 102,625**	**205,325**	**378**	**-**	**308,328**
Reportable segment assets	**$ 8,644,800**	**7,408,628**	**7,889,424**	**(9,606,403)**	14,336,449
Investment accounted for using equity method					72,825
Total assets					**$ 14,409,274**

(Continued)

(3) Information by product and service

Revenue from external customers:

	2017
Broadband	$ 14,789,870
Business	2,674,821
Others	1,676,753
	$ 19,141,444

For information on products and services for the year ended December 31, 2018, please refer to note 6(21).

(4) Geographic information

Sales to customers classified by location of customers is as follows, within which revenue is recognized based on the location of the customer and non-current assets are recognized based on the location of the asset.

A. Revenue from external customers:

Area	2017
United States	$ 4,250,568
Other countries	14,890,876
	$ 19,141,444

For information on revenue from external customers for the year ended December 31, 2018, please refer to note 6(21).

B. Non-current assets:

Area	December 31, 2018	December 31, 2017
Taiwan	$ 984,077	1,063,531
China	744,628	839,645
Other countries	179,165	188,351
	$ 1,907,870	**2,091,527**

(5) Information on major customers: None.

Unizyx Holding Corporation and subsidiaries

Loans to other parties

For the year ended December 31, 2018

Table 1 (In Thousands of New Taiwan Dollars)

Number (Note 1)	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance (Note 4)	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 2)	Transaction amount for business between two parties	Reasons for short-term financing	Loss allowance	Collateral		Individual funding loan limits (Note 3)	Maximum limit of fund financing (Note 3)	Note
													Item	Value			
1	Zyxel	MitraStar	Other accounts receivable－related parties	Yes	900,000	450,000	450,000	1%	2	-	Operating Capital	-	-	-	724,124	2,896,494	Note 6
1	Zyxel	ZyBR	〃	Yes	394,244	394,244	394,244	-	2	-	Operating Capital	-	-	-	724,124	2,896,494	Note 6
1	Zyxel	ZyIN	〃	Yes	62,945	49,754	49,754	-	2	-	Operating Capital	-	-	-	724,124	2,896,494	Note 6
1	Zyxel	ZyTR	〃	Yes	21,354	19,665	19,665	-	2	-	Operating Capital	-	-	-	724,124	2,896,494	Note 6
1	Zyxel	Others(Note 5)	〃	Yes	27,473	18,870	18,870	-	2	-	Operating Capital	-	-	-	724,124	2,896,494	Note 6
						932,533	**932,533**								724,124	2,896,494	
2	MitraStar	Monetics	〃	Yes	454,611	**450,337**	**450,337**	-	2	-	Operating Capital	-	-	-	724,124	2,896,494	Note 6

Note 1: The numbers denote the following:
0 represents Unizyx
1 represents Zyxel
2 represents MitraStar
Investees are listed in accordance with names and in sequential order starting with 1.

Note 2: Purposes of fund financing for the borrower:
1. For those companies with business transaction with the Company, please fill in 1.
2. For those companies with short-term financing needs, please fill in 2.

Note 3: The Company's total amount for financing shall not exceed 40% of the Company's net worth, which is based on the latest audited or reviewed parent-company-only financial statements. For those companies with business transaction with the Company, the amount of each fund financing shall not exceed the higher amount of the total purchases from, or sales to, a borrower in the most recent year or in the current year. For those subsidiaries with short-term financing needs, the amount of each fund financing shall not exceed 10% of the Company's net worth, which is based on the latest audited or reviewed parent-company-only financial statements.

Note 4: The ending balance is the valid loan amount approved by the Board of Directors.

Note 5: Financings with amounts less than 10,000 thousand were included herein.

Note 6: The inter-company transactions and balances had been eliminated in the consolidated financial statements.

Unizyx Holding Corporation and subsidiaries

Guarantees and endorsements for other parties

For the year ended December 31, 2018

Table 2 (In Thousands of New Taiwan Dollars)

Number	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Guarantee provided by parent company	Guarantee provided by a subsidiary	Guarantee provided to subsidiaries in Mainland China
		Name	Relationship with the Company										
0	Unizyx	MitraStar	Note 2	3,620,618	2,707,360	2,260,010	1,939,135	-	31.21%	3,620,618	Y	N	N
1	Wuxi MSTC	Monetics	Note 2	3,620,618	395,071	22,360	22,360	-	0.31%	3,620,618	N	N	Y
2	Zyxel	ZyTR	Note 2	3,620,618	89,280	-	-	-	-	3,620,618	N	N	N

Note 1: The numbers denote the following:
0 represents Unizyx
1 represents Wuxi MSTC
2 represents Zyxel
Investees are listed in accordance with names and in sequential order starting with 1.

Note 2: Both companies are wholly-owned subsidiaries or sub-subsidiaries of Unizyx.

Note 3: The total amount of guarantees and endorsements provided by each guarantor to any specific party or subsidiary shall not exceed 50% of Unizyx's net worth. The total amount of guarantees and endorsements provided by each guarantor and Company's subsidiary shall not exceed 50% of Unizyx's net worth. The total amount of guarantees and endorsements provided by each guarantor and Company's subsidiary to any specific -party shall not exceed 50% of Unizyx's net worth. If the total amount of guarantees and endorsements provided by each guarantee and Company's subsidiary exceed 50% of Unizyx's net worth, the Company should disclose its necessity and rationality at the shareholder's meeting. For those companies with business transactions, except for the abovementioned rules of limit, the amount of each guarantee and endorsement shall not exceed the transaction amount between two parties, which is the higher amount of the sales or purchases.

Unizyx Holding Corporation and subsidiaries

Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures)

For the year ended December 31, 2018

Table 3 (In Thousands of New Taiwan Dollars; In Thousands of Shares)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest percentage of ownership (%) during the year	Note
				Shares/Units	Carrying value	Percentage of ownership (%)	Fair Value		
Zyxel	Stock: Ubiik Inc.	Investee	Financial assets at fair value through other comprehensive income	956	21,561	11.35	21,561	11.35	Note 1
Zyxel	Stock: Lionic Corp.	〃	〃	500	5,000	5.54	5,000	5.54	Note 1
Zyxel	Stock: Global Channel Resource Pte. Ltd.	〃	〃	600	4,425	8.89	4,425	8.89	Note 1
Zyxel	Stock: Zowie Technology Corp.	〃	〃	19	149	0.13	149	0.13	Note 1
Zyxel	Stock: Aetas Technology Inc.	〃	〃	296	-	0.61	-	0.61	Note 1
					31,135				
Zychamp	Stock: Homeyen Networks Co., Ltd.	Investee	Financial assets at fair value through other comprehensive income	846	3,436	16.91	3,436	16.91	Note 1
Zychamp	Stock: Essence Technology Solution, Inc.	〃	〃	91	911	3.37	911	3.37	Note 1
Zychamp	Stock: Handlink Technologies Inc.	〃	〃	296	-	2.96	-	2.96	Note 1
Zychamp	Stock: Accfast Technology Corp.	〃	〃	136	-	4.52	-	4.52	Note 1
Zychamp	Stock: L7 Networks Inc.	〃	〃	1	-	0.91	-	0.91	Note 1
					4,347				
ZyTPE	Investec Global Strategy Fund - Global Energy Fund Class C Inc.	—	Financial assets at fair value through profit or loss－current	-	**1,854**	-	1,854	-	Note 2

Note 1: The stocks and certificates without an active market held by the Company are measured at fair value according to the market approach; please refer to note 6(25).
Note 2: The security is measured at the net asset value or the closing price at the end of December 2018.

Unizyx Holding Corporation and subsidiaries

Related-party transactions for purchases and sales with amounts exceeding the lower of TWD100 million or 20% of the capital stock

For the year ended December 31, 2018

Table 4 (In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase /Sale	Amount	Percentage of total purchases / sales	Payment terms	Unit price	Payment terms	Ending balance (Note 4)	Percentage of total notes / accounts receivable (payable)	
Zyxel	ZyAS	Subsidiary	Sales	4,171,260	42%	150 days after delivery	Note 1		1,635,276	35%	Note 5
Zyxel	ZyUSA	Subsidiary	Sales	3,198,567	32%	135 days after delivery	Note 1		957,286	21%	Note 5
Zyxel	ZyIT	Note 3	Sales	1,132,471	11%	150 days after delivery	Note 1		1,023,033	22%	Note 5
Zyxel	ZyBR	Subsidiary	Sales	292,876	3%	90~180 days after delivery	Note 1		631,257	14%	Note 5
Zyxel	ZyTPE	Subsidiary	Sales	218,439	2%	90 days after delivery	Note 1		70,362	2%	Note 5
Zyxel	ZyTH	Subsidiary	Sales	103,254	1%	30 days after delivery	Note 1		38,383	1%	Note 5
MitraStar	Zyxel	Note 3	Sales	3,471,420	28%	90 days after delivery	Note 1		861,102	21%	Note 5
MitraStar	Monetics	Subsidiary	Sales	604,837	5%	300 days after delivery	Note 1		1,055,904	26%	Note 5
MitraStar	Wuxi MSTC	Note 3	Processing and purchase	(4,460,115)	(40%)	90 days after receipt	Note 2		(789,735)	(34%)	Note 5
ZyAS	ZyDE	Subsidiary	Sales	848,918	18%	90 days after delivery	Note 1		122,344	10%	Note 5
ZyAS	ZyTR	Note 3	Sales	654,500	14%	90 days after delivery	Note 1		116,091	9%	Note 5
ZyAS	ZyIT	Subsidiary	Sales	451,396	10%	90 days after delivery	Note 1		467,723	37%	Note 5
ZyAS	ZyUK	Subsidiary	Sales	396,421	9%	90 days after delivery	Note 1		67,935	5%	Note 5
ZyAS	ZyCZ	Subsidiary	Sales	344,630	7%	90 days after delivery	Note 1		96,298	8%	Note 5
ZyAS	ZyBNL	Subsidiary	Sales	155,884	3%	90 days after delivery	Note 1		5,479	0%	Note 5

Note 1: The selling prices of Zyxel to its related parties are determined based on the market price, with the payment term of 30~180 days after delivery; however, the collection of payment is currently depended on the capital status of the subsidiaries. The selling prices of MitraStar to its related parties are determined based on the market price, with the payment term of 60~90 days after delivery; however, the collection of payment is currently depended on the capital status of the subsidiaries. The selling prices of ZyAS to its related parties are determined based on the market price, with the payment term of 90 days after delivery; however, the collection of payment is currently depended on the capital status of the subsidiaries.

Note 2: There is no significant difference between the payment term of MitraStar for its related parties and that of the third parties. The prices of processing are determined based on the mutual agreement between MitraStar and Wuxi MSTC.

Note 3: Both companies are wholly-owned subsidiaries or sub-subsidiaries of Unizyx.

Note 4: The ending balance abovementioned included the amount for financing that were classified as other accounts receivable－related parties.

Note 5: The inter-company transactions and balances had been eliminated in the consolidated financial statements.

Unizyx Holding Corporation and subsidiaries

Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of capital stock

For the year ended December 31, 2018

Table 5 (In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Ending balance (Note 2)	Turnover days	Overdue		Amounts received in subsequent period (Note 1)	Loss allowance	Note
					Amount	Action taken			
Zyxel	MitraStar	Note 3	450,000	Note 4	-	-	-	-	Note 5
Zyxel	ZyAS	Parent – subsidiary company	1,635,276	2.84	3,855	Enhanced Collecting	462,697	-	Note 5
Zyxel	ZyUSA	Parent – subsidiary company	957,286	3.68	-	-	616,548	-	Note 5
Zyxel	ZyBR	Parent – subsidiary company	631,257	0.57	394,244	Enhanced Collecting	65,107	-	Note 5
Zyxel	ZyIT	Note 3	1,023,033	2.21	-	-	87,286	-	Note 5
MitraStar	Zyxel	Note 3	861,102	3.51	-	-	831,152	-	Note 5
MitraStar	Monetics	Parent – subsidiary company	1,055,904	0.81	450,337	Enhanced Collecting	299,318	-	Note 5
Wuxi MSTC	MitraStar	Note 3	789,735	8.00	-	-	789,735	-	Note 5
ZyAS	ZyIT	Parent – subsidiary company	467,723	1.26	-	-	38,720	-	Note 5
ZyAS	ZyTR	Parent – subsidiary company	116,091	11.27	-	-	9,560	-	Note 5
ZyAS	ZyDE	Parent – subsidiary company	122,344	5.42	-	-	59,843	-	Note 5

Note 1: Information as of February 28, 2019.
Note 2: The abovementioned ending balance included the amount for financing, which was recognized as other accounts receivable－related parties.
Note 3: Both companies are wholly-owned subsidiaries or sub-subsidiaries of Unizyx.
Note 4: The accounts receivable – related parties incurred were due to financing.
Note 5: The inter-company transactions and balances had been eliminated in the consolidated financial statements.

Unizyx Holding Corporation and subsidiaries

Business relationships and significant intercompany transactions

For the year ended December 31, 2018

Table 6 (In Thousands of New Taiwan Dollars)

Number	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions, 2018			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
1	Zyxel	ZyAS	Parent company to subsidiary	Operating revenues	4,171,260	150 days after delivery	18.77%
1	Zyxel	ZyUSA	Parent company to subsidiary	Operating revenues	3,198,567	135 days after delivery	14.39%
1	Zyxel	ZyIT	Note 2	Operating revenues	1,132,471	150 days after delivery	5.10%
1	Zyxel	ZyBR	Parent company to subsidiary	Operating revenues	292,876	90~180 days after delivery	1.32%
1	Zyxel	Others (Note 3)	Note 2	Operating revenues	412,437	30~180 days after delivery	1.86%
1	Zyxel	ZyAS	Parent company to subsidiary	Accounts receivable－related parties, net	1,631,421		9.53%
1	Zyxel	ZyUSA	Parent company to subsidiary	Accounts receivable－related parties, net	957,286		5.59%
1	Zyxel	ZyIT	Note 2	Accounts receivable－related parties, net	1,023,033		5.98%
1	Zyxel	ZyBR	Parent company to subsidiary	Accounts receivable－related parties, net	237,013		1.38%
1	Zyxel	MitraStar	Note 2	Other accounts receivable－related parties	450,000		2.63%
1	Zyxel	ZyBR	Parent company to subsidiary	Other accounts receivable－related parties	394,244		2.30%
2	MitraStar	Zyxel	Note 2	Operating revenues	3,471,420	90 days after delivery	15.62%
2	MitraStar	Monetics	Parent company to subsidiary	Operating revenues	604,837	300 days after delivery	2.72%
2	MitraStar	Wuxi MSTC	Parent company to subsidiary	Cost of goods sold	4,460,115	90 days after receipt	20.07%
2	MitraStar	Zyxel	Note 2	Accounts receivable－related parties, net	861,102		5.03%

Number	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions, 2018			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
2	MitraStar	Monetics	Parent company to subsidiary	Accounts receivable－related parties, net	605,567		3.54%
2	MitraStar	Monetics	Parent company to subsidiary	Other accounts receivable－related parties	450,337		2.63%
2	MitraStar	Genezys	Parent company to subsidiary	Research and development expenses	238,123		1.07%
3	ZyAS	ZyDE	Parent company to subsidiary	Operating revenues	848,918	90 days after delivery	3.82%
3	ZyAS	ZyTR	Note 2	Operating revenues	654,500	90 days after delivery	2.95%
3	ZyAS	ZyIT	Parent company to subsidiary	Operating revenues	451,396	90 days after delivery	2.03%
3	ZyAS	ZyUK	Parent company to subsidiary	Operating revenues	396,421	90 days after delivery	1.78%
3	ZyAS	ZyCZ	Parent company to subsidiary	Operating revenues	344,630	90 days after delivery	1.55%
3	ZyAS	ZyIT	Parent company to subsidiary	Accounts receivable－related parties, net	467,723		2.73%
3	ZyAS	Others(Note 3)	Note 2	Accounts receivable－related parties, net	459,439		2.68%

Note 1: The numbers denote the following:
0 represents Unizyx
1 represents Zyxel
2 represents MitraStar
3 represents ZyAS
Investees are listed by names and numbered starting with 1.
Note 2: Both companies are wholly-owned subsidiaries or sub-subsidiaries of Unizyx.
Note 3: Other transactions with the amount that less than 1% of the consolidated net revenue or total assets were not disclosed.

Unizyx Holding Corporation and subsidiaries

Information on investees (excluding information on investees in Mainland China)

For the year ended December 31, 2018

Table 7 (In Thousands of New Taiwan Dollars/Foreign Currency; In Thousands of Shares)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying value				
Unizyx	Zyxel	Taiwan	Development, manufacturing and sales of communications and networking products	4,631,516	4,631,516	144,900	100	4,931,216	100	(115,962)	(115,962)	Subsidiary and Note 5
Unizyx	MitraStar	Taiwan	Development, manufacturing and sales of communications and networking products	3,337,920	3,337,920	316,800	100	2,164,895	100	(474,540)	(489,233)	Subsidiary, Note 1 and 5
Unizyx	ZQAM	Taiwan	Development, manufacturing and sales of communications and networking products	101,450	101,450	9,050	45	33,837	45	(48,053)	(26,749)	Associate and Note 2
Unizyx	Black Cat	Taiwan	Development and sales of information security products, and consultant management services	10,000	10,000	1,000	77	8,670	77	(1,638)	(1,462)	Subsidiary and Note 5
								7,138,618			**(633,406)**	
Zyxel	ZyAS	Denmark	Sales and marketing	629,088 (USD 19,537)	629,088 (USD 19,537)	40,924	100	650,384	100	27,839	Note 3	Subsidiary and Note 5
Zyxel	ZyTR	Turkey	Sales and marketing	362,862 (USD 11,977)	362,862 (USD 11,977)	29,137	100	315,334	100	119,381	Note 3	Subsidiary and Note 5
Zyxel	ZyUSA	U.S.A.	Sales and marketing	271,810 (USD 9,506)	271,810 (USD 9,506)	9,807	100	264,429	100	16,985	Note 3	Subsidiary and Note 5
Zyxel	ZyTPE	Taiwan	Sales and development of communications and networking products	50,000	50,000	11,000	100	170,817	100	23,585	Note 3	Subsidiary and Note 5
Zyxel	Sphairon	Germany	Development of communications and network products	154,320 (EUR 4,000)	154,320 (EUR 4,000)	-	100	131,549	100	3,608	Note 3	Subsidiary and Note 5

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying value				
Zyxel	Zychamp	Taiwan	Investment activities	540,000	540,000	8,902	100	124,387	100	(38)	Note 3	Subsidiary and Note 5
Zyxel	ZyTH	Thailand	Sales and marketing	36,454 (USD 1,142)	36,454 (USD 1,142)	4,080	51	27,595	51	(2,401)	Note 3	Subsidiary and Note 5
Zyxel	ZyKR	South Korea	Sales and marketing	11,127 (USD 390)	11,127 (USD 390)	72	65	21,138	65	8,440	Note 3	Subsidiary and Note 5
Zyxel	VICTOR	British Virgin Islands	Investment activities	106,477 (USD 3,719)	106,477 (USD 3,719)	3,719	100	18,780	100	(13,741)	Note 3	Subsidiary and Note 5
Zyxel	Ecowork	Taiwan	Service of database of Chinese studies, cross-platform mobile applications and global network construction	29,920	29,920	1,492	60	14,878	60	4,084	Note 3	Subsidiary and Note 5
Zyxel	ShareTech	Taiwan	Development, manufacturing and sales of communications and networking products	10,950	10,950	730	40	11,748	40	3,479	Note 3	Associate
Zyxel	Ardomus	Taiwan	Development and sales of network digital control products	32,060	14,000	3,206	64	4,800	64	(22,686)	Note 3	Subsidiary and Note 5
Zyxel	ZyEE	Estonia	Sales and marketing	88 (EUR 3)	-	3	100	88	100	-	-	Subsidiary and Note 5
Zyxel	ZySG	Singapore	Sales and marketing	69,090 (USD 2,284)	69,090 (USD 2,284)	3,019	100	-	100	(1,221)	Note 3	Subsidiary, Note 4 and 5
Zyxel	ZyME	United Arab Emirates	Sales and marketing	216 (USD 7)	216 (USD 7)	-	100	(22,483)	100	508	Note 3	Subsidiary and Note 5
Zyxel	ZyBR	Brazil	Sales and marketing	53,373 (USD 1,668)	53,373 (USD 1,668)	5,849	100	(77,791)	100	(68,020)	Note 3	Subsidiary and Note 5
Zyxel	ZyIN	India	Sales and marketing	62,768 (USD 1,939)	62,768 (USD 1,939)	8,470	100	(249,876)	100	(38,712)	Note 3	Subsidiary and Note 5
								1,405,777				

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying value				
VICTOR	ZyMY	Malaysia	Sales and marketing	43,738 (USD 1,337)	43,738 (USD 1,337)	4,900	100	-	100	-	-	Subsidiary, Note 4 and 5
ZyAS	ZyDE	Germany	Sales and marketing	67,461 (EUR 1,525)	67,461 (EUR 1,525)	-	100	134,638	100	2,995	Note 3	Subsidiary and Note 5
ZyAS	ZyUK	United Kingdom	Sales and marketing	319,542 (EUR 6,450)	319,542 (EUR 6,450)	5,375	100	59,565	100	3,600	Note 3	Subsidiary and Note 5
ZyAS	ZyBNL	Netherlands	Sales and marketing	54,089 (EUR 1,350)	54,089 (EUR 1,350)	14	100	49,304	100	708	Note 3	Subsidiary and Note 5
ZyAS	ZyIT	Italy	Sales and marketing	48,793 (EUR 1,450)	48,793 (EUR 1,450)	10	100	23,719	100	5,396	Note 3	Subsidiary and Note 5
ZyAS	ZyCZ	Czech Republic	Sales and marketing	66,283 (EUR 1,543)	66,283 (EUR 1,543)	19,000	100	22,297	100	1,460	Note 3	Subsidiary and Note 5
ZyAS	ZyES	Spain	Sales and marketing	2,165 (EUR 53)	2,165 (EUR 53)	3	100	4,753	100	72	Note 3	Subsidiary and Note 5
ZyAS	ZyRUS	Russia	Sales and marketing	28 (EUR 1)	28 (EUR 1)	-	100	894	100	1,591	Note 3	Subsidiary and Note 5
								295,170				
MitraStar	Bluebell	British Virgin Islands	Investment activities	1,659,652 (USD 49,500)	1,659,652 (USD 49,500)	35,235	100	**1,525,582**	100	(135,230)	Note 3	Subsidiary and Note 5

Note 1: The share of the investee company's loss comprises the share of subsidiary's loss after the elimination of unrealized gross profit on inter-company sales transactions.

Note 2: The share of the investee company's loss comprises the share of ZQAM's loss amounting to $20,655 thousand and the amortization of intangible assets amounting to $6,094 thousand.

Note 3: The share of profits/losses of the investee company is not disclosed herein as such amount is already included in the share of profits/losses of the investor company.

Note 4: ZySG and ZyMY were liquidated in January 2019.

Note 5: The inter-company transactions and balances had been eliminated in the consolidated financial statements.

Unizyx Holding Corporation and subsidiaries

Information on investment in Mainland China

For the year ended December 31, 2018

Table 8

(1) Information on investment in Mainland China

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Issued Capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of investee	Direct/indirect shareholding (%) by the Company	Highest percentage of ownership during the year	Share of profits/losses of investee (Note 6)	Carrying amount as of December 31, 2018	Accumulated repatriation of investment income
					Out-flow	Inflow							
Tianjin Huagin	Manufacture, sale of communications, network products and technical consulting service	44,375	Note 1	42,156	-	-	42,156	(43)	Zyxel indirectly holds 95%	Zyxel indirectly holds 95%	(41)	5,999	-
ZySHA	Sales of communications, network products and technical consulting service	266,259	Note 1	266,259	-	-	266,259	(13,770)	Zyxel indirectly holds 100%	Zyxel indirectly holds 100%	(13,770)	12,692	-
Wuxi MSTC	Manufacture and sales of communications and network products and technical consulting service	1,013,953	Note 2	1,013,953	-	-	1,013,953	(111,855)	MitraStar indirectly holds 100%	MitraStar indirectly holds 100%	(111,855)	1,519,844	-
Genezys	Development of communications and network products	209,806	Note 3	209,806	-	-	209,806	17,168	MitraStar directly holds 100%	MitraStar directly holds 100%	17,168	222,081	-
Monetics	Sales of communications, network products and network technology transfer service	150,448 (Note 4)	Note 2 and 3	72,193	-	-	72,193	(51,821)	MitraStar directly and indirectly holds 100%	MitraStar directly and indirectly holds 100%	(51,821)	6,482	-
Beijing HuaqinWorld	Sales of communications, network products and network technology transfer and consulting service	236,860	Note 5	-	-	-	-	-	MitraStar indirectly holds 49%	MitraStar indirectly holds 49%	-	-	-

(2) Limitation on investment in Mainland China

Company	Accumulated investment amount remitted from Taiwan to Mainland China as of December 31, 2018	Approved investment amount by Ministry of Economic Affairs Investment Commission	Limitation on investment in Mainland China in accordance with regulations of Ministry of Economic Affairs Investment Commission (Note 6)
Zyxel	308,415	308,415	3,066,944
MitraStar	1,295,952	1,374,207	1,331,055

Note 1: Indirect investment in Mainland China through an existing investee company (VICTOR) in a third region.
Note 2: Indirect investment in Mainland China through an existing investee company (Bluebell) in a third region.
Note 3: Direct investment in the company in Mainland China by MitraStar.
Note 4: The issued capital of Monetics amounting to 78,255 thousand was invested by Bluebell through self-funded.
Note 5: The investment in Beijing HuaqinWorld was invested by Genezys through self-funding, which is not applicable for the calculation of limitation on the investment in Mainland China.
Note 6: In accordance with the Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China amended on August 29, 2008, the limitation on investment in Mainland China shall not exceed 60% of the Company's net worth as of December 31, 2018.